Report of the AUDITOR GENERAL to the Legislative Assembly

Prince Edward Island

1992

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OFFICE OF THE AUDITOR GENERAL

PROVINCE OF PRINCE EDWARD ISLAND

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The Honourable Speaker and
Members of the Legislative Assembly
of the Province of Prince Edward Island

In accordance with the requirements of the Audit Act, I have the honour of presenting my annual report to the 1992 Session of the Legislative Assembly.

Respectfully submitted,

J. Wayne Murphy, C.A.
Auditor General

Charlottetown
Prince Edward Island
February 21, 1992

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INTRODUCTION

GENERAL

Under Section 16 of the Audit Act, I am required to report annually to the Legislative Assembly. This report fulfills that requirement, and provides the members of the Legislative Assembly with the summary results of the work performed during the year.

There are a number of significant issues raised in this year's report. In addition there is a separate section of the report which provides summary information on the status of outstanding recommendations from previous years.

BASIS OF REPORTING

The report deals mainly with matters pertaining to the 1990-91 fiscal year. However, many of the issues identified remain outstanding and are still being addressed by Government. Our emphasis is exception reporting and the report does not dwell on what is working well. This report is based on observations and recommendations made to departments and agencies of government selected for audit during the year.

It is important to note that the audit process itself has limitations, and it is not practical to attempt to audit all areas of government each year. However, adequate coverage is obtained on a cyclical basis.

The existence of a constructive relationship between my office and those we audit, together with this independent report to the Legislative Assembly, provides a good combination to promote what this office is trying to achieve - accountability and improved management of public funds.

SCOPE AND ACKNOWLEDGMENTS

The audit program this year covered financial statement audits of the Public Accounts of the Province, eleven Crown corporations and agencies, and seven special purpose funds. Special audits and examinations were performed on several department programs and government-wide activities. In all our audits, we have received good cooperation from Ministers, Deputy Ministers, Heads of Crown corporations and other government officials. I wish to acknowledge this cooperation and also the assistance provided by the Legislative Audit Committee in the administration of my office. Finally, I would like to express appreciation to my staff for their continued hard work and support.

MATTERS OF SPECIAL INTEREST

1. DEFICITS AND DEBT

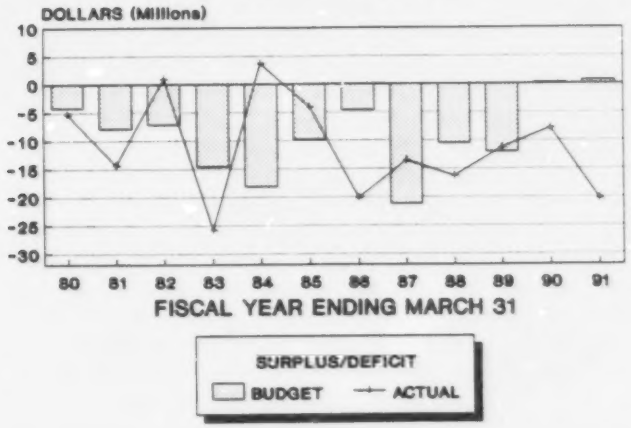
INTRODUCTION

1.1 In our last five annual reports, information on the impact of deficits and debt on the financial condition of the Province was brought to the attention of the Legislative Assembly. The consistent objective has been to highlight, analyze, and provide trends on the key components that affect the financial condition of the Province.

HISTORICAL PERSPECTIVE

1.2 Deficits have been the rule rather than the exception. In fact, the Province has only managed to break the deficit barrier in two of the last twelve years. As can be seen in **Exhibit 1.1** the Province has a long history of budgeting for deficits.

EXHIBIT 1.1
DEFICITS
BUDGET vs. ACTUAL



1.3 Since 1979-80, deficits totalling $135 million were incurred by various governments. The impact these deficits have on the net debt of the Province is substantial. Our current net debt is now $219 million without taking into account this year's projected deficit of approximately $50 million and unfunded pension liabilities of $332 million. Our financial situation has evolved over time and a combination of factors including current economic conditions have brought the Province face to face with the current financial dilemma. Although the current projected deficit is an immediate concern, the deficits that were incurred over the past 12 years and the increase in the unfunded pension liabilities have contributed to the current financial situation, leaving the Province with little room to maneuver.

CURRENT PLIGHT

1.4 Traditionally, heavy emphasis is placed on the annual budget which is limited in scope to a one year period. If we review the past 12 years, one year at a time, the budgeted deficits, even in the worst years were manageable and the lack of

surpluses in good years did not appear to pose a problem. However, if you generate our current financial picture by bringing together the cumulative effect of these one year snapshots, a much more disturbing financial position becomes evident - accumulated deficits of $135 million.

1.5 These deficits are financed with debt which translates into higher interest and debt servicing costs which in 1990-91 reached $95 million. Debt charges are now the third largest expenditure after Health and Social Services and Education. Or, expressed another way, debt charges are now greater than the **combined** budgets of nine departments. With the increases in health care and social services costs outpacing the increases in tax revenues and federal transfers, holding the line on the debt, let alone reducing it, will be a challenge.

1.6 Because of the size and nature of our economy, our reliance on Federal transfer payments, and our dependence on the success of other provincial economies, we are limited in what we can do to address the deficit problem. We are limited but not helpless and must deal with the reality of the situation.

FUTURE PERSPECTIVE

1.7 Even though the Province has no control over some of these external factors, their effects have to be taken into account in our financial plans. Our fiscal problems did not occur overnight and the accumulated deficits of 12 years cannot be erased in one year. Nevertheless, the annual budget must remain the predominant instrument for planning and controlling the annual operations of the Province. However, the past 12 years have clearly demonstrated, this short-term focus is not enough. In fact this "slice in time" approach to financial management inhibits a long-term strategy. Government and the Legislative Assembly need to be aware of the ramifications of each year's annual budget on the long-term financial condition of the Province.

1.8 One way to make sure governments keep the ongoing fiscal position in perspective would be to present a multi-year fiscal plan for the Province together with the annual budget. In the current circumstances, Government needs to present to the Legislature a multi-year plan which would disclose Government's financial projections over a three to five year period, including the resulting impact on the net debt. Government has indicated its intention to balance the budget in three years.

1.9 Admittedly, the preparation of a multi-year plan would pose a challenge under our present system. On the other hand, any effort to focus on the larger problem, by presenting annually to the members of the Legislative Assembly an update on government's intended long-term course of action, would add some discipline that is now lacking.

CONCLUSION

1.10 The bottom line is the net debt continues to increase. Our flexibility to try to do **more with less** is approaching the point where we may be faced with doing **less with less**. Reducing the deficit and controlling the debt is in everyone's best interest. I have attempted to provide some useful information to stimulate productive discussion in the Legislative Assembly. The expectation is that by providing this perspective, government and the Legislature will have both improved means and stronger incentive to manage our financial affairs better.

2. ACCOUNTABILITY AND GOVERNMENT REFORM

INTRODUCTION

2.1 Accountability is a term that gained prominence in the public sector over the last decade. It is now widely used not only in the context of government activities but also throughout society to emphasize the obligation of individuals and organizations to answer for their responsibilities. In fact, the term is being used in such a broad sense that its intended meaning may be losing impact. Although the term accountability may over time become trite, the concept will continue to be relevant especially in the public sector.

2.2 The concept of accountability, in its simplest terms, means the obligation to answer for a responsibility conferred. The onus of accountability permeates the whole of the public sector. Elected members of the Legislative Assembly are accountable to the taxpayers, and the Legislature in turn holds government accountable for its administration and stewardship.

2.3 The Cabinet Committee on Government Reform was formed in the summer of 1990. Many of the issues covered in the Committee's terms of reference revolve around the concept of accountability. Most of these issues have been the subject of audits by our office over the past five years. One of the main objectives in doing these audits is to promote accountability through audit observations and recommendations presented to government and the Legislative Assembly.

2.4 Although the mandate of the Reform Committee covers many areas, a number of topics dealing with accountability are of special interest to this office and were reported in our previous annual reports. I reiterated our concerns to the Committee on a number of these items and referred them to our full reports on these subjects. Following are the main topics we have reported on in recent years.

TRANSFER PAYMENTS

2.5 In 1989 we performed a major review of provincial transfer payments to hospitals, school units, universities, and municipalities. The provincial government makes payments of more than $200 million to these organizations annually. In turn, the government expects these organizations to fulfil their responsibilities in carrying out the public policy objectives contained in the various legislation establishing their authority and obligations.

2.6 Accountability relationships encompassing transfer payments are complicated by the number of parties who have an interest. The Legislative Assembly who approves the funds, the department who makes the payments, the recipient organization, and ultimately those who eventually receive the service all have an interest in accountability. However, each has a different interest which has to be served in different ways. In reaching a solution on appropriate accountability arrangements for each class of recipient, the government must attempt to balance the potentially conflicting principles of respect for local autonomy and the requirement for accountability for funds paid to these organizations.

2.7 We found that an appropriate accountability framework did not exist for these payments. Major gaps existed in the information provided by transfer recipients for reporting on their accountability in a meaningful way. With transfer payments to these organizations representing a major part of the provincial budget, accountability for the economic, efficient, and effective use of these resources is crucial. We are hopeful the Committee will address the points raised in our transfer payment report.

CROWN CORPORATIONS

2.8 In 1990 we reported to government and the Legislative Assembly extensively on the need to improve the control and accountability of crown corporations. Crown corporations are a significant element of government sponsored activities, with over $200 million in expenditures. They also play an important role in the fulfillment of public policy objectives. Therefore, a strong accountability relationship with the government and the Legislature is required. We understand crown corporations were singled out for review under Government Reform and look forward to any changes that improve accountability.

ANNUAL REPORTS OF DEPARTMENTS AND AGENCIES

2.9 In 1987 we reported on the need for improving the annual reports submitted by departments and agencies. Annual reports can provide the Legislature and others with a clear picture of the objectives, programs, and achievements of the entities of government. Our review found the reports submitted were insufficient for this purpose and required major improvements. Although some work has been done, no substantive action has been taken to improve the quality and content of these reports. The reform initiative provides an excellent opportunity to introduce the requirement for meaningful annual reports as part of the reformed organization of government.

EFFECTIVENESS REPORTING

2.10 Another perennial topic from this office has been the need for some form of program evaluation or program performance review on a regular basis. We recognize that there are inherent drawbacks to implementing an ongoing process to measure program effectiveness. Nevertheless, such a process would provide meaningful information and address the effectiveness and continued usefulness of government programs. The government reform initiative will address this to some extent, however, program evaluation is not a one-time endeavour.

2.11 We reported last year on the benefits of implementing an effectiveness framework to demonstrate accountability in the expenditure of public funds. The main output of this framework would be the reporting of information on the effectiveness of government programs. Several provincial governments are considering the framework outlined in our report last year and one provincial government has implemented it in some areas.

2.12 The framework suggested evolved from a study by the Canadian Comprehensive Auditing Foundation. The framework distills effectiveness into a number of attributes that provide a reasonable basis for understanding and can be identified in practice. The idea being that departments and agencies could provide meaningful information on their attributes, which taken together, would provide a basis for a balanced judgement on overall effectiveness.

2.13 The Government Reform Initiative provides the opportunity to firmly establish a framework for probing and reporting on the effectiveness of government programs. When the major issues of the reform initiative are dealt with, an appropriate accountability framework that provides for reporting on effectiveness should be included.

CONCLUSION

2.14 The Government Reform Initiative is a major undertaking covering many diverse issues and has already involved a great deal of work by many public servants. We recognize that the issues we have raised have to be dealt with in the context of decisions that result from the entire process. Nevertheless, they need to be addressed sooner rather than later if appropriate accountability over public resources is to be enhanced.

3. PUBLIC ACCOUNTS COMMITTEE

ROLE AND MANDATE

3.1 The Committee is an important link in the accountability process. It provides a forum in which members of the Committee, as members of the Legislative Assembly, are given the opportunity to hold the administration accountable.

3.2 The Committee in our Province, like most others, has evolved mainly from past practices and tradition and the duties of the Committee are not governed by statute.

3.3 The primary function of the Committee is the review of the Auditor General's Report subsequent to its tabling in the Legislative Assembly.

PROCEEDINGS AND RESULTS

3.4 The Committee holds public meetings and requires the Auditor General and government officials to appear and answer questions on specific matters raised in the Auditor General's Report. Because of time limitations, the Committee usually has time to deal with only one or two topics in depth.

3.5 Last year, the Committee spent most of its time on three sections of the Auditor General's Report: Loans and Guarantees; Hospital and Health Services Commission; and the PEI Grain Elevators Corporation. I, along with others, provided input to the Committee in response to questions raised during several meetings dealing with these subjects.

3.6 The Committee prepared a report which summarized the discussions held and included specific recommendations on each of the three sections. The Committee's report was adopted by the Legislative Assembly. I have included follow-up information in my Annual Report which addresses the recommendations made by the Committee.

CONCLUSION

3.7 There is an increased awareness of the work of the Committee and their work is contributing to improved accountability and effectiveness in government operations.

REPORTS ON SPECIAL AUDITS AND EXAMINATIONS

4. INTRODUCTION TO SPECIAL AUDITS AND EXAMINATIONS

4.1 Subsection 13(2) of the Audit Act establishes my mandate for special audits and examinations of departments and agencies of the Crown.

4.2 To perform these audits, we use a broadly based auditing approach aimed at systematically reviewing and reporting on accountability relationships and on the supporting activities, systems, and controls employed by management in fulfilling its responsibilities. The purpose of the audits is to examine each entity or program, report our findings, and make recommendations where appropriate.

4.3 Section 16 of the Audit Act requires me to call attention to any matters I consider necessary to be brought to the attention of the Legislative Assembly. Accordingly, I present the significant findings and recommendations in the sections following this introduction.

5. PROVINCIAL HOMES AND MANORS

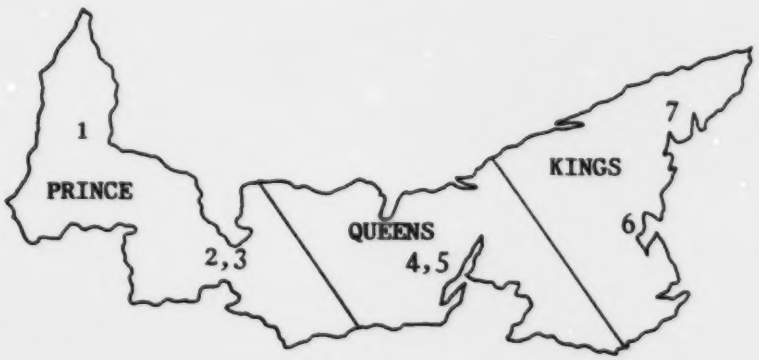
BACKGROUND

5.1 The Division of Aging and Extended Care operates 2 homes and 5 manors to provide special care to the elderly. The facilities are distributed across the Island providing a total of 573 long term and 9 temporary care beds. The distribution of beds is included in **Exhibit 5.1.**

5.2 The primary responsibility of the Division is to provide short-term and long-term institutional and nursing care to elderly residents of Prince Edward Island who are in need of such services.

EXHIBIT 5.1
HOMES AND MANORS
BED DISTRIBUTION

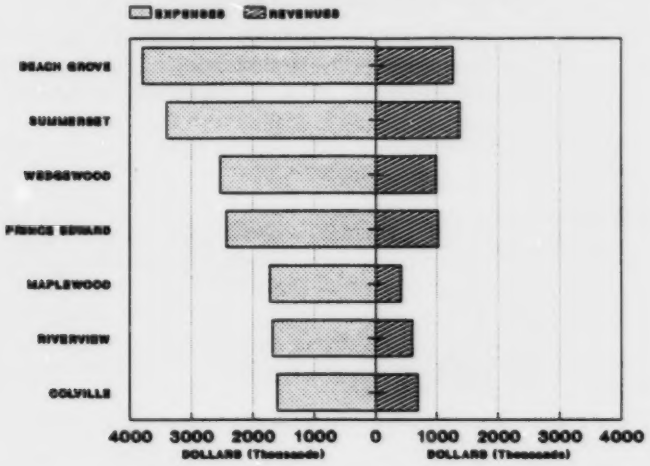
1.	Maplewood Manor	51
2.	Summerset Manor	120
3.	Wedgewood Manor	76
4.	Beach Grove Home	132
5.	Prince Edward Home	96
6.	Riverview Manor	51
7.	Colville Manor	56
		582



5.3 Expenditures of $18 million were made by the Province to operate the homes and manors in 1990-91. These expenditures are partially offset by $7 million in revenue from the residents. The revenues and expenditures related to each home and manor are shown in **Exhibit 5.2.**

5.4 The net annual cost to the Province per manor bed is $19,907, an increase of 34 percent over the last five years.

EXHIBIT 5.2
HOMES AND MANORS
EXPENDITURES AND REVENUES



RESULTS IN BRIEF

5.5 The care and comfort of residents is given a high priority; however, financial administration is weak and requires immediate attention.

5.6 Inadequate procedures for determining and collecting patient fees from residents are resulting in a loss of revenue to the Province.

5.7 Procedures for settling estate claims were not consistent.

5.8 The accounting and administrative control over residents' trust accounts needs to be improved.

5.9 Placement decisions were not supported by complete documentation.

5.10 Inaccuracies in the calculation of the per diem rate have resulted in a loss of revenue to the Province.

5.11 A number of problems were found in the procedures used to control expenditures. Employee sick leave and Workers Compensation Board costs are higher than the average compared to the rest of government.

5.12 Minimum nursing care standards need to be agreed upon and applied consistently.

5.13 Computer technology is not sufficiently utilized to perform administrative functions.

AUDIT SCOPE

5.14 In accordance with Section 13 of the Audit Act, an examination was performed to assess whether the provincial homes and manors were managed economically, efficiently, and effectively.

PRINCIPAL FINDINGS

Introductory Comments

5.15 Understandably, the main priority in managing the operations of the Provincial Homes and Manors is the care and comfort of the residents. A great deal of time and effort is expended by both the Division Director and manor administrators in dealing with the problems that arise affecting the level of care. We agree that this emphasis is essential if the residents are to be cared for in the best manner possible.

5.16 There is another element to the manors which is significant and will become even more so in the future. The manors are now a $25 million dollar operation facing fiscal constraints like all other government programs, therefore, the administration of $18 million in expenditures and $7 million in revenue requires increased attention. Our audit revealed that immediate action is required to correct the deficiencies in financial administration.

5.17 The remainder of this section provides the specific findings from our audit. It dwells on the numerous problems found in the administration of revenues, trust accounts, staffing and budgetary matters. Recommendations were made to the Department, on these individual areas, to serve as guidance in solving the problems identified.

Revenue

5.18 The residents of the homes and manors are required by the Welfare Assistance Act to contribute to their cost of care. Eleven percent of the residents fully pay for the cost of their care which now exceeds $2,500 per month. The remainder receive subsidization from the Province and normally contribute at least their Old Age Security pension and Guaranteed Income Supplement, which was $750 per month at the time of our examination.

5.19 The Division has not collected all revenue to which the Province is entitled. This is caused by a number of weaknesses in resident assessment procedures and inadequate control of the revenue collection systems. We tested 20 percent of resident files and found errors totalling $63,000. Projecting our findings over all resident files suggest the loss of revenue to the Province could be as much as $300,000. Weaknesses in controls over revenue included:

- The failure to properly assess the financial requirements of residents or their spouses prior to admission.
- The failure to verify the spouse's income and expenses as required by the Regulations and no reassessment of spouse's income or expenses subsequent to admission.
- The failure to detect all income sources at the time of admission.
- The failure to include monthly income after admission as part of the resident's contribution.
- The failure to collect revenues identified during the assessment process.

- Inadequate follow-up of potential income tax refunds.

5.20 Additional weaknesses in controls over revenue included:

- Delays in transferring revenues to the Province. We found that on average, revenue is not deposited with the Province until at least 15 days after the end of the month costing the Province $28,000 annually in lost interest. The resident trust accounts however, earned $18,000 because of the delay.
- Certificates of Incapability which enable the home or manor to receive and deposit residents' cheques directly were not always present.
- Inadequate verification of financial assets at the time of admission. We noted two cases where assets totalling $34,000 were discovered after admission.

Recommendations

5.21 Criteria should be developed for assessing the financial resources and expenses of applicants' spouses. Provision should be made for reassessing spouses' income and expenses subsequent to admission.

5.22 There should be additional verification procedures for liquid assets, real property, and income received after admission.

5.23 Controls over billings and collections should be improved to ensure all amounts due to the Province are collected. Revenue should be transferred to the Province on a timely basis.

5.24 Administrative staff should investigate situations where income taxes are withheld at source and file returns for refunds where appropriate.

5.25 Certificates of Incapability should be obtained for all residents whose cheques are received and deposited directly.

Estate Transactions

5.26 The Division bills the estates of residents to recover the cost of subsidized nursing care. Estate recoveries by central office were $34,000 for the 15 months ended February 28, 1991.

5.27 Insufficient efforts are made by the Division to maximize recoveries from estates. In three of six settlements examined, we noted that the Division accepted less than its full entitlement to estates which cost the Province $9,000 in lost revenues. This is contrary to the Regulations.

5.28 We also noted a number of issues which could result in the inconsistent treatment of estate billings and recoveries. These include:

- Some homes and manors billed estates for comfort allowances. This is in violation of Division guidelines.
- Estate billings were not always prepared within the time frame outlined in the Division's policy manual.

- Transfers of residents' property are not monitored during their stay at the home or manor.
- Claims are not left open against estates where there is an initial decision to defer action.
- Estate recoveries are received by both central office and individual homes and manors. Central office is not aware of all recoveries.

Recommendations

5.29 Division guidelines for preparing estate billings should be adhered to and clarified where inconsistencies can arise.

5.30 All recoveries should be approved and administered by central office.

5.31 The Division should not accept less than the Province's full entitlement to estates without obtaining the approval of the Lieutenant Governor-in-Council as required by the Regulations.

Trust Accounts

5.32 Each home and manor maintains trust accounts for the residents. These are used to hold monthly comfort allowances of $75 provided by the Province to subsidized residents for their personal needs. The total of all trust accounts usually exceeds $100,000.

5.33 We examined the residents' trust accounts in each of the homes and manors and made a number of observations including the following:

- Monthly summaries of trust account activities were not always reconciled to bank account balances. We noted over $11,000 in differences.
- Several homes and manors used one bank account for both residents' trust accounts and provincial revenue collection. The Regulations to the Welfare Assistance Act indicate that comfort allowance monies should be deposited in a trust account for residents.
- Types of purchases and payments from the trust accounts were inconsistent between facilities. In addition, one manor allowed overdraft balances in the trust accounts.

Recommendations

5.34 Reconciliations of trust fund bank accounts to monthly summaries should be performed.

5.35 One bank account should be used for each home and manor trust fund. A separate account should be kept for provincial revenues.

5.36 The Division should establish a policy to indicate the types of payments and purchases which can be made from the trust accounts.

Placement

5.37 Division staff assess applicants to help ensure those most in need of nursing home care are admitted to the homes and manors. The primary tool used for assessments is the functional profile which provides a rating of the applicant based on an evaluation of sensory ability, activities of daily living, psychosocial assessment, safety awareness, and medical needs.

5.38 The functional profile is used to distinguish an applicant as priority or non-priority but isn't necessarily used to determine who will be admitted. Decisions on admissions are made by a Placement Committee. Our examination of individual files indicated that residents with a broad range of functional profile ratings were admitted although all were classified as priority. Other factors which affected admissions include whether an applicant was in an acute care hospital, the mobility of the resident, whether the applicant required subsidization, and geographic location. We found that all of the factors in the decision to admit individual residents were not documented. To demonstrate that the placement process is based on an objective review, it is important to document the factors influencing placement decisions.

Recommendation

5.39 The Division should document all factors used to support admissions to the homes and manors.

Per Diem Rate

5.40 The per diem rate is a measure of the total cost per day of operating homes and manors and is used by the Division to bill self-paying residents for the cost of their care. In 1990-91, $7 million out of the total cost of $18 million was recovered from residents. Over the last five years the per diem rate has increased 28 percent. We noted a number of problems with the calculation of the per diem rate which will result in reduced revenues to the province for 1991-92. These included:

- The per diem rate did not include central office costs and some renovations and major repair costs.
- The rate included some costs for services provided to non-residents. These included meals prepared for Meals on Wheels and day program costs.
- The per diem rate is calculated based on 100 percent occupancy while the actual occupancy is 97 percent.
- The per diem rate is calculated based on financial information from two years previous rather than current information.
- In 1991-92 the Division did not increase the per diem rate from the previous year. Costs actually increased by over $750,000.

5.41 The impact of these adjustments would cause the per diem rate to increase by $16.04. Based on 212,430 patient days per year and the current ratio of 11 percent of residents self paying the loss in patient revenue is $375,000 per year.

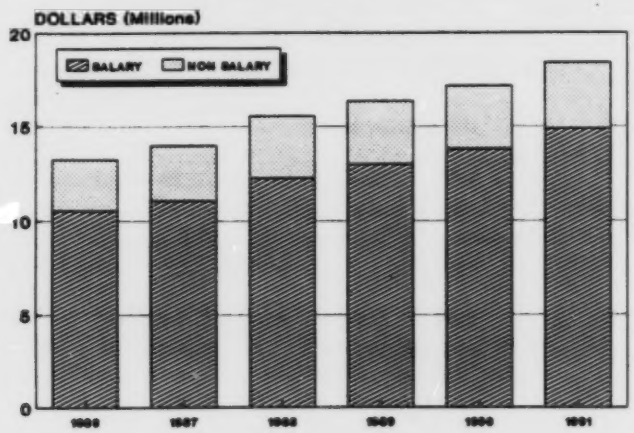
Recommendation

5.42 The Division should accurately calculate the per diem rate used to charge self paying residents for their cost of care.

Expenditures

5.43 The expenditures for the homes and manors have increased 39 percent from $13.2 million to $18.4 million over the last five years. **Exhibit 5.3** shows that salary costs are the largest part of expenditures.

EXHIBIT 5.3
HOMES AND MANORS
SIX YEAR SUMMARY OF EXPENDITURES



5.44 The Division overspent its salary budget by at least $400,000 in each of the last six years. This occurs in all of the manors every year. The reason the homes and manors are constantly over budget appears to be inadequate allocations for sick leave and Workers Compensation Board costs.

5.45 The cost of sick leave and payments to the Workers Compensation Board totalled over $700,000 in 1990-91. Sick and disability leave usage in the homes and manors was 13.8 days per employee while the average for government was 8.1 days. Apparently sick leave in the health care profession is an ongoing issue and the Division is continuing efforts to deal with it.

5.46 We noted a number of other weaknesses in the control over expenditures. These included:

- Three requisitions over $5,000 were not approved by the Deputy Minister.
- One manor used a credit card which is not in accordance with government procedures.
- An adjustment was made to a tender price after tenders were closed.

- Discounts for purchases of power were not always taken, due to delays in the bill paying routine.
- Local Purchase Orders were used to pay charge accounts at pharmacies which contravenes the guidelines in the Public Purchasing Act.

Recommendations

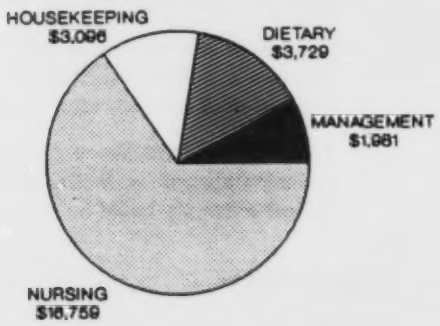
5.47 The reasons for the high sick leave usage and workers' compensation costs should be determined and, where possible, corrective action taken to reduce these costs.

5.48 Greater care should be exercised in adhering to controls over expenditures.

Staffing

5.49 Staffing costs of about $15 million account for 80 percent of home and manor expenditures. The average salary cost per bed was $25,600 in 1990-91. Each manor has nursing, dietary, housekeeping, and administrative departments. The per bed costs of each of the departments is illustrated in **Exhibit 5.4**.

EXHIBIT 5.4
HOMES AND MANORS
SALARY COST PER BED



5.50 Nursing costs account for 66 percent of salary costs in the homes and manors. The nursing departments are staffed with registered nurses, licensed nursing assistants, resident care workers, and ward clerks. For the purpose of calculating nursing requirements, direct care minutes were developed to correspond with each level of care required for residents as determined by their functional profile assessment. For example, using this calculation a resident with a level IV care requirement needs 210 minutes of direct care per day. The functional abilities of residents change constantly resulting in different nursing staff requirements. In the month we reviewed, staffing levels in relation to requirements ranged from 82 to 109 percent in the individual facilities. The weighted average for all homes and manors was 94 percent.

5.51 Several Administrators and Directors of Nursing indicated that they consider the direct care minutes as the minimum required to meet the needs of their residents. We found that five of the seven homes and manors did not have the staff levels to meet the direct care minutes required for the one month we reviewed. The Director of Aging and Extended Care views them as a standard but not necessarily the minimum staff requirements. The direct care minutes are a useful tool for determining staff requirements, and their purpose needs to be clarified.

Recommendation

5.52 The Division should determine what the minimum nursing care standard is, compare the homes and manors against this standard, and take corrective measures to ensure the care provided is consistent.

Management Information System

5.53 The management information system used by the homes and manors includes regular staff meetings in the facilities, meetings of administrators and department heads, reports exchanged with division management, and information exchanged within the department and central agencies of government. Administrators and department heads indicated timely information is required to effectively operate the homes and manors.

5.54 In general we found that the homes and manors underutilized computer technology even though each facility had a microcomputer.

- The homes and manors did not have on-line access to the financial information system which made it difficult to monitor accounts because printouts may not be received until a month after expenditures are made.
- The homes and manors each had manual systems for recording revenue and trust account transactions. With the volume of similar transactions, improvement in clerical efficiency could be attained through computerization.

Recommendation

5.55 The Division should increase its use of computer technology by obtaining on-line access to financial information and using microcomputers to record revenue and trust fund transactions.

Accreditation

5.56 All of the seven government homes and manors are accredited. Accreditation is the review of a facility to determine the degree of compliance with the Long Term Care I Facilities Standards of the Canadian Council on Health Facilities Accreditation. While accreditation does not by itself guarantee that quality care is provided, it is valuable to ensure the systems are in place to provide quality care.

CONCLUSION

5.57 Our general impression of the provincial homes and manors is that staff are committed to providing quality care to the residents. Emphasis is placed on ensuring capable staff look after residents in accredited facilities. In the last few years this has been more difficult because the care requirements of persons entering the facilities is rising, however nursing staff has been increased in response to these demands. Most of the weaknesses we noted were administrative in nature and while they did not seriously impact on the care provided to residents, they place a strain on the Province's financial resources. These problems should be resolved to ensure the Province maximizes its use of financial resources and residents are provided with quality care.

DEPARTMENTAL RESPONSE

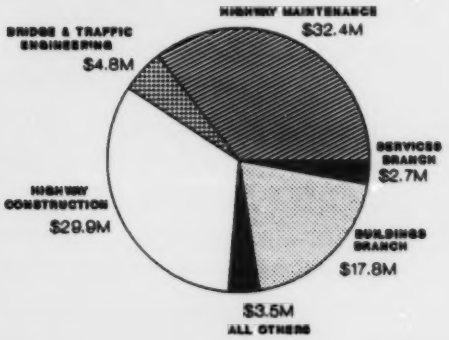
5.58 The Department is taking action to address each of the issues identified in our report.

6. HIGHWAY MAINTENANCE

BACKGROUND

6.1 The Roads Act provides the Minister of Transportation and Public Works with control over building, maintaining, and repairing all roads, highways and bridges in the Province. During 1990-91 the Department of Transportation and Public Works spent $67.1 million or 73.6 percent of its combined current and capital budget on this mandate. **Exhibit 6.1** provides a breakdown of the Department's combined current and capital expenditures for 1990-91. For the purposes of this report we have considered the Mechanical Branch as part of the Highway Maintenance function since its primary role is to supply equipment, operators, and repair services for Highway Maintenance activities.

EXHIBIT 6.1
DEPARTMENT EXPENDITURES
CAPITAL AND CURRENT



6.2 The majority of the Department's highway related activities are carried out by two divisions, the Highway Construction Division and the Highway Maintenance Division. Highway Construction was included in our 1990 and 1991 annual reports.

6.3 Highway maintenance tasks are largely carried out by the Department itself. This involves a significant investment in equipment, materials, and personnel.

RESULTS IN BRIEF

6.4 Some pavement maintenance activities are not carried out in an economical and efficient manner.

6.5 The Division does not accurately determine the cost of snow clearing activities.

6.6 Sanding and salting operations require changes to improve efficiency and reduce costs.

6.7 There is a general lack of due regard for economy and efficiency in roadside maintenance activities.

6.8 The Division is incurring high maintenance costs because many vehicles are obsolete.

6.9 The Division does not have sufficient information to make informed decisions on whether to purchase or rent equipment.

6.10 The computerized maintenance management system is not adequately serving the information needs of the Division.

6.11 Travel costs are not being sufficiently managed and controlled.

6.12 The Department's planning process has not addressed the financial impact on the Maintenance Division of changes to the highway construction strategy.

AUDIT SCOPE

6.13 In accordance with Section 13 of the Audit Act our examination was performed to assess the controls and management procedures in place to ensure the activities of the Highway Maintenance Division are carried out with due regard for economy, efficiency , and effectiveness.

PRINCIPAL FINDINGS

Introductory Comments

6.14 The Department is fulfilling its mandate and the roads are being maintained, plowed, sanded and salted for the travelling public. However, the price being paid for these benefits is too high due to insufficient regard for economy and efficiency in maintenance activities.

6.15 Although this report provides many instances of waste and inefficiency, most of the deficiencies identified can be traced back to a combination of two basic problems; the lack of adequate attention to economy and efficiency, and the lack of an adequate management information system.

6.16 The Division's efforts are also complicated by Government's desire to accomodate people looking for sufficient employment to qualify for unemployment insurance benefits. We recognize the difficulty faced by government in dealing with this situation. We do not have the solution to this problem which involves more than issues of economy and efficiency. We can only say that the practice of hiring individuals mainly for this purpose is having an adverse impact on the effectiveness of the Maintenance Division. The Division cannot be expected to be held accountable for economy and efficiency when it is required to hire some individuals who are not being employed productively.

6.17 Weaknesses identified in the management information system are affecting management's ability to make important decisions. Until these weaknesses are corrected, and management is provided with accurate and complete information, due regard for economy and efficiency cannot be attained.

Pavement Maintenance

6.18 Maintenance of the pavement surface of the Province's roadways is one of the prime functions carried out by the Highway Maintenance Division. Expenditures in this area amounted to over $7.8 million in 1990-91.

6.19 As part of our examination we reviewed the resources used by the Division. We found the Division had enough staff and equipment to use 34 percent more asphalt than was budgeted. Management advised there is not enough asphalt to keep crews patching all season and once the asphalt materials budget is used these crews are employed at other maintenance tasks. Crew time is also used on standby which can, in part, be attributed to equipment or asphalt plant breakdowns or to poor weather conditions. The cost of the unproductive standby time for hand patch crews exceeded $100,000. While some of this expense is unavoidable, efforts should be made to ensure it is minimized.

6.20 We also examined the equipment used for pavement maintenance and found savings of $85,000 per year could be realized by using their half-ton trucks rather than three-ton trucks to haul tack tanks.

6.21 We also examined the performance of various work crews and the Division's role in monitoring work efficiency. We found that the Division's grader, spreader, and deep patch crews either exceeded the productivity standard of the Department or were within a reasonable range of the standard. However, the 17 hand patch crews on average, took 15 percent longer than the productivity standard set by the Department.

6.22 If all of the patch crews worked at the standard set by the Department, it would have taken 12,400 less hours to apply the asphalt. We estimate that the labour and equipment cost of failing to meet the Department's standards is over $180,000.

6.23 The Division's Maintenance Management System has the capacity to report on individual crew performance. Because the system was approximately one year behind in data processing and reporting it was ineffective in monitoring work performance. The problems with the Maintenance Management System are reported in more detail in subsequent paragraphs of this section.

Recommendations

6.24 The Department should schedule personnel and equipment based on materials available and volume of work to be performed.

6.25 The Department should monitor crew performance and take corrective action where productivity varies significantly from the standard set by the Department.

Snow Clearing

6.26 The Highway Maintenance Division is responsible for snow clearing of the Province's highways. The Division uses its own manpower and equipment to clear about 2,390 kilometers of road while private contractors clear the remaining 2,190 kilometers. The total cost of snow clearing amounted to approximately $9.4 million in 1990-91.

6.27 The Department must periodically make decisions related to the delivery of snow clearing services. One of the more critical decisions that has to be made is how much of the Island's road network should be cleared by private contractors and how much should be cleared by government's own operators. One key piece of information that must be considered before making this decision is how the contracted price compares to government's cost.

6.28 The Department has estimated that the cost of its own snow clearing is $2,084 per kilometer compared to private contractors which were paid $2,017 per kilometer. We reviewed the Department's estimate of its cost and found several deficiencies in their analysis which impact on the accuracy and usefulness of their figure. The Department has not made use of readily available information to estimate costs and we found basic flaws in their methodology. For example, the Department uses the same depreciation for all vehicles regardless of cost or age, resulting in vehicles such as graders having the same annual depreciation cost as half-ton trucks. Because of these problems, the Department's cost figure for snow clearing is inaccurate and should not be relied upon in making comparisons with the cost of hiring private contractors.

6.29 We also noted during our examination that one contractor was receiving payment from the Department to clear 16 private lanes. These payments totalled over $7,300 between 1989 and 1991. This is against the normal policy of the Department.

Recommendations

6.30 The Department should determine an accurate cost of its snow clearing operations, utilizing the information and data which is available within the Department.

6.31 In accordance with its own policy, the Department should cease paying for the clearing of private lanes.

Sanding and Salting

6.32 Sanding and salting operations are carried out by the Department using government equipment as well as equipment and personnel provided by individual contractors. Generally salt is used on the primary highways and sand mix is used elsewhere. The cost of sanding and salting totalled over $3.8 million in 1990-91.

6.33 We recommended, as a result of an audit in 1984, that the labour intensive use of sandwheels be replaced with a more automated type of sanding. In January 1991, Executive Council authorized the Department to replace the sandwheels with automated hopper-type sand spreaders. The Department has projected that this move, along with a change to paying sanding contractors on a per kilometer rather than hourly basis, will produce annual savings in the area of $540,000 to $650,000. Based on these figures, earlier implementation of our recommendation, together with changing the basis of payments to contractors, would have saved $3.8 million to $4.6 million, expressed in 1991 dollars, over the past 7 years. We have been advised that earlier attempts by the Division to get approval to implement this recommendation were denied.

6.34 We also noted that in past years the Department hired an extra labourer for each of the seven sand trucks equipped with Epoke spreaders, although these personnel were not required. The Department estimated that the annual cost of hiring these labourers was over $44,000.

6.35 To ensure salt is spread properly, the Department has detailed salt application standards and a monitoring system. Using this information, we compared the actual salt application for the year to the quantity called for in the standards. Our analysis indicated that the Department used 28 percent more salt than required by its standards. This additional salt cost over $120,000. The negative impact on the environment and the roadway infrastructure are also considerations.

6.36 We discussed this issue with the Department and were advised that they have taken numerous steps over the past year to improve salt application operations, including setting up a monitoring system, re-calibrating equipment, and stressing the importance of the issue to the equipment operators. We were advised these efforts are continuing.

6.37 Similar application standards were not developed for sanding operations due to the difficulty in calibrating the manual sandwheel spreaders. As previously discussed, the sandwheel process is now being replaced by automated spreaders that should allow for better monitoring and control of sand usage.

Recommendation

6.38 The Department should continue its efforts to improve salt application operations and should develop similar standards and monitoring procedures for sanding.

Roadside Maintenance and Maintenance of Roads

6.39 Roadside maintenance consists of such things as bush cutting, painting sign posts, cutting grass, and repairing guardrails. Maintenance of roads includes anything of a maintenance nature, except for pavement repairs. Expenditures for these functions amounted to over $5.2 million in 1990-91.

6.40 There is a general lack of due regard for economy and efficiency in roadside maintenance activities. The problem is illustrated in the following issues which came to our attention:

- Staff informed us that special work crews are hired at a cost of $230,000 to accommodate people looking for sufficient employment to qualify for unemployment insurance benefits.
- Backhoe operators, who are paid based on the number of hours on the work site, are rarely sent home during periods when they are not required.
- Supervisors informed us that they feel unable to give poor performance evaluations or take corrective action against poor performance.

6.41 We also noted weaknesses in the control and use of some maintenance materials. Controls over the use of culverts are inadequate. District supervisors are not required to sign for receipt of culverts and property owners are not required to

certify that culverts have been placed in their driveways. There is no reconciliation of the quantity of culverts on hand at year end.

Recommendations

6.42 Departmental management in consultation with supervisors should attempt to deal with the problems contributing to poor economy and efficiency.

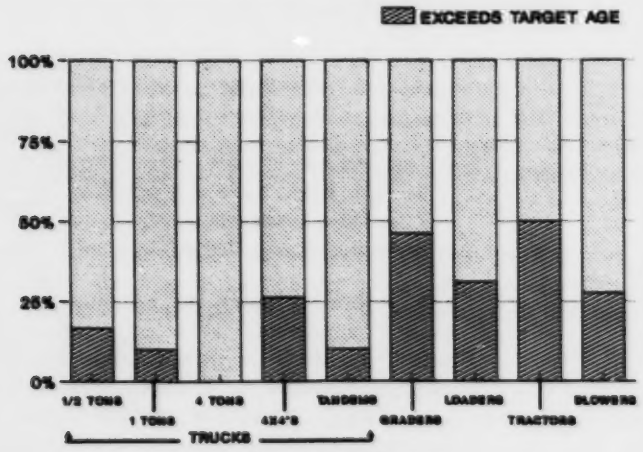
6.43 The Department should implement controls to ensure that culverts are adequately controlled and used for their intended purpose.

Equipment Control

6.44 The Highway Maintenance Division satisfies its equipment needs by either owning its own equipment and employing its own operators, or renting the equipment and operator for limited time periods. The Department's Mechanical Branch is responsible for the Department owned and operated equipment. Current and capital expenditures of the Branch amounted to approximately $8.8 million in 1990-91.

6.45 The Mechanical Branch has operated under the general premise that the equipment is to be retained and utilized over an extended life cycle. We found that the Mechanical Branch retains most of its equipment too long, even though the intended life cycles of some vehicles are already considered to be lengthy. **Exhibit 6.2** illustrates this problem for the various types of vehicles in the fleet. The vehicle classes that are in most need of improvement are also the most costly to replace.

EXHIBIT 6.2
GOVERNMENT FLEET
PERCENTAGE OF FLEET BEYOND TARGET AGE



6.46 Carrying an aged and obsolete fleet leads to high maintenance costs. It also leads to costs associated with vehicle downtime, such as the need to supplement the fleet with rented equipment. During our review of individual vehicle records we found numerous examples of high annual maintenance costs. Two examples were $12,400 to maintain a half-ton truck with a replacement cost of $16,000 and $17,400 of repairs to a three-ton truck with a replacement cost of $41,000.

6.47 In recognition of the fleet obsolescence problem, the Garage Manager put forward a ten year replacement agenda in 1989 designed to bring the fleet to within the stated life cycle targets. Actual equipment acquisition expenditures for 1990-91 and the approved budget for 1991-92 will fall short of the plan by approximately $300,000. Consequently, there are still some problems with obsolete equipment. The 1989 replacement plan was never officially endorsed nor adopted by the Department.

6.48 The cost of keeping an older fleet has never been compared to the cost of other alternatives such as shorter replacement periods. Shorter replacement periods avoid the high maintenance cost associated with a vehicle's later years of service and therefore offer potential savings.

6.49 We also examined the Division's use of rented equipment. Since the Department's fleet is not large enough to meet all the highway maintenance equipment needs, the Department makes extensive use of rented equipment. Expenditures for rentals amounted to over $3 million in 1990-91.

6.50 We found that there is no management information system within the Department to provide details on the rental activity of the Highway Maintenance Division. Details such as rental cost by type of equipment, duration of rentals, frequency of rentals, and rental needs by season are not available. Such information would be beneficial in analyzing the needs of highway maintenance and to identify and evaluate alternative methods of sourcing equipment. For instance we found the following examples where renting may not have been the most economical alternative for the Department:

- Over a six year time frame the Department paid $115,000 for 19 months of rental for a non-fueled and non-operated loader. A loader of similar capacity could be purchased for approximately $170,000 with an estimated useful life of 25 years.
- The Department rents three-ton trucks for various summer and winter activities. We found that there is a potential for the Department to save in the area of $200,000 in 1991 dollars over the ten year useful life of these trucks by purchasing and using its own fleet rather than renting.

6.51 Finally, during our examination, we became aware of a policy which allowed departmental motor grader operators to use the equipment on their own time to do work on private lanes. Operators were not required to reimburse government for the cost of operating the equipment, estimated to be $50 per hour. In two instances, the government self-insurance fund had to pay claims for damages amounting to $4,225 caused by a grader operator while working on his own time. Since the completion of our audit, the Department has changed this policy and now prohibits the private use of government equipment.

Preventive Maintenance

6.52 As part of our review of equipment control we examined the issue of preventive maintenance for the government equipment fleet. Mechanical Branch management is aware of the benefits associated with a preventive maintenance program and in 1989 a detailed preventive maintenance program was designed and implemented.

6.53 We examined a number of vehicle records for trucks and for heavy equipment in order to determine whether the preventive maintenance plan was being followed. We found that many of the required services were late or were missed. In our sample, the records indicated that 45 percent of the required services for heavy equipment and 25 percent of the required services for trucks were not performed. Management indicated that in some of these cases the required service may have been performed but not recorded in their information system. Management of the Mechanical Branch has started to oversee the scheduling of preventive maintenance which should improve overall compliance to the plan.

Recommendations

6.54 The Department should determine an optimal age for replacement of each component of its vehicle fleet and implement a long-term fleet replacement plan.

6.55 The Department should analyze its current rental practices to determine whether cost savings may be realized through other equipment sourcing alternatives.

6.56 Steps should be taken to ensure the fleet preventive maintenance plan is followed.

Maintenance Management System

6.57 Departmental management needs data on the cost of the various highway maintenance activities and individual projects. The financial information system and the budgeting system of the Province do not provide that capacity.

6.58 In the Spring of 1986 the Department began the process of acquiring a management information system for the Highway Maintenance Division that would address this problem and provide other useful information to Division personnel. The contract for the development and delivery of the system was awarded to a consulting group and in 1988 the existing Maintenance Management System (MMS) was introduced.

6.59 In any management information system, the benefits of the system should outweigh the costs. We estimate the total cost of acquiring and operating the system to date have amounted to at least $250,000. The following facts lead us to question the benefits of the system:

- The system has not been well received by the Department's staff. Some staff do not see the benefits of such a system while others express a lack of confidence in the system.
- The system is still unable to generate accurate cost information on various maintenance activities.

- An entire component of the system is not being utilized. The Equipment Management System component was to track costs associated with the equipment of the Mechanical Branch.
- The MMS is not used for many of the purposes it was designed for. For instance, it is generally not used for identifying maintenance needs, budgeting, or resource allocations.
- At the time of our examination the system was backlogged approximately 10 to 12 months. Management was basically getting information one year late. As with most information, it must be timely to be of any substantial benefit.
- A post implementation review by Computer Services Division states that the MMS will not meet the Department's long-term needs. We have learned that the Department is currently considering a conversion of the existing system to the mainframe at an additional cost of approximately $75,000 despite the fact that the system is only three years old.

6.60 In summary, the Department did not receive good value for money in the acquisition of the current Maintenance Management System. In our opinion this has been due to poor management of the system acquisition process including a lack of clearly defined and communicated user needs.

Recommendations

6.61 The Department should re-examine the current MMS to determine its problems and whether further investment is warranted.

6.62 The Department should ensure the information required to properly manage the maintenance activities is made available and presented in a useful format.

Travel

6.63 The work of the Highway Maintenance Division requires a great deal of in-province travel by employees. In 1990-91, the Highway Maintenance Division and Mechanical Branch spent approximately $60,000 for owned and leased vehicle travel costs, and over $265,000 reimbursing employees for use of their own vehicles.

6.64 The key control over travel reimbursement expenditures is the review of the claim and payment authorization form by the employee's supervisor. Overall, we found that the authorization controls were poorly enforced and the claims were not given sufficient scrutiny. For example, we found a situation where two employees were authorizing a large number of each other's travel claims, yet neither employee was the other's supervisor.

6.65 In a number of other cases, claims were authorized by the supervisor despite the fact that the employee failed to list the exact destination of travel. Due to this lack of information the reasonableness of these claims was not being assessed.

6.66 When an employee travels between 30,000 and 45,000 kilometers per year, Treasury Board policy requires the department to review the situation and determine whether or not the employee should be assigned a government vehicle. Effective

April 1, 1991 where the employee travels in excess of 45,000 kilometers per year, the policy requires the department to provide the employee with a vehicle.

6.67 We found a total of twelve employees who travelled in excess of 30,000 kilometers in 1990-91 at a cost to government of over $137,000. None of these employees were assigned a government owned or leased vehicle. Eight of the twelve exceeded 45,000 kilometers of travel. We found that none of these eight employees have yet to be assigned a vehicle for 1991-92, despite the fact that it is now required by the Treasury Board Policy.

6.68 One of the employees referred to above was reimbursed for over 74,000 kilometers of travel in 1990-91 representing a cost of $17,589. We estimate that the Department would have saved between $30,000 to $40,000 in 1990-91 by supplying leased vehicles to those 12 employees who travelled over 30,000 kilometers.

6.69 In the course of our examination we also noted that the Department has been renting half-ton trucks from employees of its roadside maintenance crews. These employees are reimbursed for the use of their vehicles at a rate of $8.08 per hour for five hours per day. This method of reimbursement is not in accordance with Treasury Board policy which provides that, in addition to mileage, a service use allowance of $3.50 per day be paid to employees using their own vehicles to transport work crews or heavy equipment. We were unable to obtain documentation that this alternate arrangement was approved by Treasury Board.

Recommendations

6.70 The Department should adhere to the Treasury Board Travel Regulations and Policies.

6.71 All travel claims should be given adequate scrutiny and be appropriately authorized.

Quality Control

6.72 Throughout our examination of the various maintenance activities, we noted that there was no documentation of the quality control procedures performed by the Division or the results of those procedures. For example:

- Performance standards do exist for snow control and the Division does have a system of regular road patrols and inspections by various personnel. However, there is no documentation of road patrol results or problems that have been noted or reported.
- Pavement maintenance work site visits by supervisors do not result in any form of inspection or performance report nor are the supervisors provided with any instructions on what aspects of the work they should review.

6.73 Without documentation of the quality control procedures performed and the results obtained it is difficult to ensure that monitoring has been adequate, the problem areas have been identified, or that corrective action has been taken.

Recommendation

6.74 The quality control procedures in place should be documented and road patrol or site inspection reports completed. At a minimum, instances of poor quality work or public complaints should be recorded, summarized, and reported.

Capital Accounts

6.75 During our examination of the maintenance capital accounts it became clear that the difference between a capital expenditure and an ordinary expenditure was not well defined. We found several examples where the appropriateness of charging maintenance activity to capital accounts was questionable.

6.76 In one example, a deep patch crew was paid through capital accounts even though it did the same work as four other deep patch crews which were paid from ordinary accounts. There appears to be no justification for this inconsistency and the $140,000 cost should be charged to ordinary expenditures.

6.77 We noted a further $230,000 in the capital maintenance budget for utility crews. The crews do not have a specific purpose. We were told they perform functions that, in our view, should not be accounted for as capital expenditures.

6.78 We were also informed that some individual projects carried out by the Maintenance Division are funded using a blend of ordinary and capital expenditures. If a project is truly a capital activity, then all costs should be charged to capital accounts. If it is not capital, then all costs should be charged to ordinary accounts.

6.79 Department staff have informed us that some of the capital expenditure items result from the status quo budgeting process which limits current expenditure growth. The Department is making up for this deficiency in the capital account. The effect of this is that the current account deficit of the Province is understated while the capital account deficit is overstated.

Recommendation

6.80 The Department should define, based on generally accepted accounting principles for government, the charges to be made to capital and current appropriation accounts.

Planning

6.81 Strategic planning for Highway Maintenance occurs at the Department level. In the Department's 1990 strategic plan, a new focus was provided for the annual highway construction program. Under this plan the Highway Construction Division's reconstruction and rehabilitation efforts will be focused on 1,800 kilometers of roadway designated as the primary network. The remaining 1,700 kilometers of paved roadway is left to the Maintenance Division to keep in "passable condition".

6.82 In developing this new strategy the Department has recognized that it has insufficient funds to reconstruct, on a cyclical basis, the entire paved network. It seems clear that the network under the care of the Maintenance Division will require greater attention as it reaches and exceeds the stage where reconstruction would

otherwise occur. The total cost of this maintenance strategy has yet to be determined but the end result will be a transfer of financial responsibility from one division to another. The planning process has not addressed in sufficient detail the impact of this change on the financial and operational resources of the Department.

Recommendation

6.83 The Department's planning process should include an analysis of the financial and operational impact resulting from the shift in responsibilities from the Construction Division to the Maintenance Division.

CONCLUSION

6.84 The Highway Maintenance Division has the difficult task of coordinating a large number of diverse activities to keep the highway system in good condition. Since our last audit in 1984, some improvements have been made. Nevertheless, there are a number of problems and issues that have to be dealt with if the Division is to operate with due regard for economy and efficiency.

DEPARTMENTAL RESPONSE

6.85 The Division substantially agrees with our report and intends to deal with the recommendations.

7. CAPITAL EXPENDITURES - BUILDINGS

BACKGROUND

7.1 The Department of Transportation and Public Works is assigned responsibility for the overall coordination of the planning and approval of capital projects.

7.2 A Capital Projects Management Policy (CPMP) exists which applies to all departments, most crown corporations, and school construction activities. It specifies approval processes to be followed, and the duties and responsibilities of the Department of Transportation and Public Works, the client department or agency, Treasury Board, and Executive Council.

7.3 In 1990-91 the Province spent $21 million to carry out capital construction and major repairs and renovations for its own buildings as well as those for school units and some Crown corporations.

RESULTS IN BRIEF

7.4 Treasury Board issued improved guidelines in 1988 to standardize the approval and implementation processes over the Province's capital construction projects, excluding highways.

7.5 Information submitted to government by school units is inadequate for determining the urgency and scope of proposed school construction projects.

7.6 Consultant and architectural services valued at $2.8 million were not tendered.

7.7 In some projects, all provisions of the CPMP were not followed.

7.8 Project evaluations required under the CPMP were not carried out.

AUDIT SCOPE

7.9 We conducted an audit of capital expenditures on buildings in accordance with Section 13 of the Audit Act. We assessed the management practices in place over the construction of six projects. Three of these were schools; Birchwood Phase I, Birchwood Phase II, and Gulf Shore, totalling $12.9 million. The other three projects valued at $5.6 million were Brookvale Ski Park, Grain Elevators upgrading, and Prince County Jail and Courthouse.

PRINCIPAL FINDINGS

Capital Project Management Policy

7.10 In October 1988, Treasury Board issued its revised CPMP. The purpose of this policy is to standardize the approval and implementation processes over the Province's capital construction projects, excluding highways.

7.11 Our review noted that the CPMP does not refer to compliance with the Public Purchasing Act. Approximately $2 million has been spent in the last four years on furnishings and equipment for school construction projects. The Public Purchasing Act provides specific requirements regarding these types of purchases.

School Construction - General

7.12 The Province initiated its present school construction program in 1987. Approximately $42 million of an anticipated $80 million construction program has been expended as of March 31, 1991.

7.13 The nature and format of information provided by school units, in their requests to government for school construction, is not standardized. This makes it difficult for Department of Education and Executive Council to adequately assess and compare the needs of each school unit and related costs.

7.14 For example, it was noted that Birchwood Junior High School received approval in principle for $1 million in renovations based on the priority list submitted by the school units. However, the final cost of these renovations ended up costing over $7 million. Department of Education officials informed us that the CPMP will be changed to improve the format and information provided by the school units.

7.15 To date, the Department of Transportation and Public Works has used outside architectural firms on most of its school construction projects. Over the past four years, consultant fees for architectural services have totalled $2.8 million. Tendering procedures are not carried out and contracts are awarded by Executive Council.

7.16 Our review of the planning, design, and project management approval processes for the three school projects examined revealed all major steps required by the CPMP were followed.

School Construction - Financing and Ownership

7.17 Until recently, no formal policy existed regarding the financing and ownership of capital projects. As a result, considerable time often elapsed between the date a project was completed, measured by the occupancy date, and the date a debenture was issued transferring ownership and debt to the school unit. These delays have been due to late furniture and equipment arrivals and resolving minor contract deficiencies. As a result, interest continued to be capitalized on the entire project long after the project became operational.

7.18 A review of seven recently completed school projects totalling $16 million noted delays of five to nine months after a project was complete and before a debenture was issued. Treasury Board has recently approved an addition to its CPMP covering the issues of financing and ownership of school and hospital construction projects. In our opinion, this new section adequately addresses the issues raised.

Grain Elevators Upgrading

7.19 In July 1987, a routine inspection by the Insurers' Advisory Organization identified numerous deficiencies in the P.E.I. Grain Elevators Corporation grain handling system, particularly its electrical and mechanical systems.

7.20 After review by an outside consultant, an estimate of $1.2 million was approved by Treasury Board. Unforeseen structural decay to the Kensington Grain Elevator brought the total cost to $1.4 million.

7.21 Our audit of this project noted the following:

- Adequate financial and budgetary control over each major phase was maintained by Treasury Board.
- Project management files were poorly organized, lacked chronological order, and generally led to a choppy and confusing portrayal of events.
- There were no minutes of job meetings to indicate proper coordination of all parties involved; and
- Holdback provisions were not established on one major mechanical contract valued at $193,000.

Brookvale Ski Park

7.22 The purpose of this three year capital project was to provide competitive nordic skiing facilities for the 1991 Canada Winter Games as well as develop and upgrade alpine facilities including a new lodge, additional height on hills, redesign of slopes, and extra trails and lifts.

7.23 The original estimate was $1.5 million which has since risen to $2.9 million. Negotiations to lease property adjacent to existing Alpine facilities and enable the joint use of all common facilities, such as parking, ski lodge and storage buildings were unsuccessful and therefore additional costs were incurred.

7.24 The CPMP requires the Department of Transportation and Public Works to be responsible for capital project management. However, in this instance, this responsibility was assigned to the Parks Division of the Department of Tourism and Parks at their request. We noted problems with this project:

- Three contracts valued at $330,000 did not include holdback provisions.
- Project management files were poorly organized.
- Bid quotations were either not requested or were poorly documented; and
- Payment control procedures such as contract completion certificates and deficiency inspections were not used.

7.25 In our opinion, many key requirements of the CPMP were either not followed or were poorly documented.

Prince County Jail and Courthouse

7.26 In August 1988 Executive Council approved the renovation and upgrading of the facilities at the Prince County Jail in Summerside. Previous consultant, staff, and fire marshal reports all agreed that the facility was unsafe and outdated.

7.27 The original tendered cost of the project was $1.1 million and the actual completed cost was $1.35 million. This was due to unanticipated structural deficiencies.

7.28 Our review of this project resulted in the following observations:

- Project management files were well organized and adequately documented each major step of construction.
- Minutes of all job meetings were well kept and adequately documented the coordination of all parties involved.
- Change orders were properly authorized and documented.
- All progress payment claims were properly documented.
- Change orders represented 22 percent of the original tender. This is considerably more than the 2 to 5 percent normally experienced. Unanticipated structural and security components were explanations provided by the Department; and
- Additional work valued at $70,000 was carried out, apart from the tendered main contract. Tenders for this additional work were not requested nor were holdback provisions applied.

Project Evaluations

7.29 The CPMP requires that an evaluation be conducted within two years of completion of all capital projects costing more than $1 million, and the results forwarded to Treasury Board. Evaluations are the responsibility of the Department of Transportation and Public Works with input to be provided by the user department.

7.30 We noted that evaluations have not been prepared on any capital project during the last four fiscal years ended March 31, 1991. The Department of Transportation and Public Works has informed us that a short form evaluation report is now being developed for use on capital projects.

RECOMMENDATIONS

7.31 School units should be required to submit construction priority lists in a standard form which provides sufficient information to assess the urgency and full scope of each school construction project.

7.32 Consideration should be given to tendering the architectural service contracts for capital projects.

7.33 Project management files should be orderly and record all important events occurring during the project, including minutes of job meetings.

7.34 In accordance with the CPMP, the Department of Transportation and Public Works should retain responsibility for project management, and all projects should be evaluated.

7.35 Additional work outside of the project contract should be tendered or bids solicited. In addition, holdback provisions should be applied when payments are made for additional work.

DEPARTMENTAL RESPONSE

7.36 The Department of Transportation and Public Works agreed with our report.

8. CADC AND SRDC

BACKGROUND

8.1 Charlottetown Area Development Corporation (CADC) was incorporated in 1974. The Province has majority ownership of the Corporation with 85 percent of the shares and the City of Charlottetown owns 15 percent. CADC's mandate is to provide innovation, investment, and expertise for individual projects of economic and social benefit that government or the private sector are not prepared to execute alone.

8.2 Summerside Regional Development Corporation (SRDC) formerly called the Summerside Waterfront Development Corporation was incorporated in 1971. The Province has majority ownership holding 75 percent of the shares. The Town of Summerside has 15 percent of the shares and the Greater Summerside Development Inc. owns 10 percent. SRDC's objectives are to enhance Summerside and the surrounding area as a growing service and tourism centre, and to help develop the area as an attractive place to live, work, and establish enterprise.

RESULTS IN BRIEF

8.3 The total combined gross revenues of the corporations were $5.7 million for the year ended March 31, 1991.

8.4 The corporations have been involved in many projects to develop the Charlottetown and Summerside areas.

8.5 CADC has made financial commitments to developers totalling $17.5 million.

8.6 An accountability framework is required involving each corporation, the Minister responsible, Government, and the Legislative Assembly.

AUDIT SCOPE

8.7 In accordance with Section 13 of the Audit Act and at the request of the Minister of Industry, we performed a review of CADC and SRDC.

PRINCIPAL FINDINGS

Organization

8.8 CADC is operated by a Board of Directors comprised of nine members, seven appointed by the Province and two by the City of Charlottetown. The Corporation has a general manager and fourteen staff to run the day to day activities.

8.9 SRDC's Board of Directors consists of nine members appointed by the shareholders. The Corporation also has a general manager and fifteen staff who administer operations.

Financial Summary - CADC

8.10 CADC earned revenues of approximately $3.5 million for the year ended March 31, 1991. The Corporation received about $2 million from its rental properties and $1.2 million from interest on investments with the remaining $250,000 made up of management fees and government grants. The Corporation incurred expenses of $2.3 million consisting mainly of operating costs for the rental properties and administration costs.

8.11 The Corporation had total assets of $30.6 million at March 31, 1991. This is comprised of long-term assets of $20.4 million and cash and term deposits of $10.2 million. Included in long-term assets is an investment in preferred shares for $1.5 million. These shares were received as part of the selling price of Confederation Court Mall. The cash and term deposits includes $5.1 million borrowed under the Immigrant Investor Program and we were advised these monies will be used to finance future projects.

8.12 CADC has long-term debt totalling $19.7 million. Approximately $17 million of this debt was borrowed under the Immigrant Investor Program in 1989 at 2 percent and is due in 1993. It cost the Corporation $1.5 million to raise these funds. The Corporation estimates that the $17 million debt will be reduced to $8.8 million by 1992 and that sufficient cash flow will be available to service the balance under conventional financing. Based on current conditions and a review of the audited financial statements, these projections appear reasonable. However, the Corporation has other commitments that may place additional demands on its cash flow.

Commitments - CADC

8.13 The Corporation has made commitments totalling $17.5 million to four companies that were financed under the Immigrant Investor Program. These commitments are subject to other sources of financing not being available to these companies when the debt comes due in one to three years. It is not clear at this time whether or not CADC will be called upon to act on these commitments. The financial viability of these projects and their ability to obtain conventional financing when the debt comes due will be the determining factors. There are currently no guarantees by the Province to CADC or any of its subsidiaries.

Financial Summary - SRDC

8.14 SRDC had revenues of approximately $2.3 million for the year ended March 31, 1991. This consisted mainly of rental income of $1.9 million. Other income from the Summerside Golf Club, interest, and government grants totalled approximately $400,000. The Corporation incurred expenses of approximately $2 million for operations, interest costs, and administration.

8.15 The Corporation had total assets of $8.2 million at March 31, 1991. These consisted of current assets of $1.3 million made up mainly of short-term deposits and accounts receivable. Long-term assets of $6.9 million were comprised mainly of rental properties and the Summerside Golf Club.

8.16 SRDC had long-term debt totalling approximately $3.5 million at March 31, 1991 consisting of mortgages and debentures secured by real estate. SRDC is in the process of obtaining a loan through the Immigrant Investor Program to refinance its long-term debt and finance additional projects.

Accountability to Government and the Legislative Assembly

8.17 CADC and SRDC are corporations with share capital formed under the Companies Act. The Province owns 85 percent of the shares of CADC and 75 percent of the shares of SRDC. Unlike crown corporations CADC and SRDC do not come under the Financial Administration Act and are not subject to the Act's financial control and reporting requirements.

8.18 We recognize that these corporations were exempted from the Financial Administration Act because of the desire to keep them at even greater arm's length from government than crown corporations. This provides the degree of independence from political and bureaucratic control considered necessary by government for them to fulfil their mandates.

8.19 CADC and SRDC have not been required to complete strategic overviews and annual corporate plans describing their plans and projects for presentation to government. In addition, there is no requirement to table annual reports in the Legislative Assembly to provide information on their objectives and the extent of achievement. Since their inception the Province has contributed substantial funds to these corporations.

8.20 In our opinion there is a need for greater accountability of these corporations to government and the Legislative Assembly. This does not necessarily mean that their independence from bureaucratic and political control would be compromised. A distinction needs to be made between control over operations and accountability for actions taken. Control can still remain with the Boards of Directors and CEOs of these corporations to the extent flexibility is required to maintain their independence. However, there should be no exemption from accountability and these corporations should be held accountable for actions taken or planned. Government's, and thus the taxpayers' stake in their activities requires this accountability.

8.21 Both corporations believe the current procedures whereby the Minister responsible is made aware of each corporation's activity through copies of minutes, brief annual reports, meetings and phone calls are adequate. Concern was expressed that most of their dealings are with private businesses and individuals and therefore, confidentiality is an important factor. We agree; however, essential information must be made available to the government and the Legislature. Providing accountability information need not jeopardize the relationship with businesses and individuals or place projects at risk.

8.22 The crucial point remains that the government has majority ownership of these corporations and they are therefore accountable to government and the Legislative Assembly for their activities. With both corporations administering millions of dollars in assets and liabilities, accountability should not be limited to contact with the Minister responsible. The mandates of these corporations are broad, and the current accountability framework does not provide sufficient information on their activities.

8.23 Critical to ensuring and monitoring this accountability is the provision of sufficient information to enable the government and members of the Legislative Assembly to reach informed conclusions about their activities and achievement of objectives.

RECOMMENDATION

8.24 An appropriate accountability framework should be established for the Charlottetown Area Development Corporation and the Summerside Regional Development Corporation to inform government and the Legislative Assembly on their plans, activities, and the extent of achievement of objectives.

MINISTER'S RESPONSE

8.25 The Minister of Industry agrees with our report and intends to implement our recommendation.

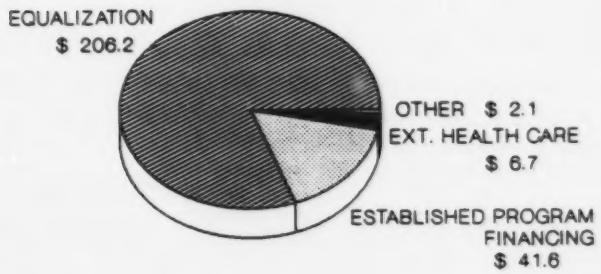
9. FEDERAL REVENUE

BACKGROUND

9.1 In 1990-91 federal revenue received by the Province of Prince Edward Island totalled $315.3 million. The percentage of federal revenue to total revenue received by the Province has declined slightly in the past few years. It was 44 percent in 1990-91, compared to 46.5 percent in 1986-87. Federal revenue is generally categorized into three types; transfer payments, cost-shared payments, and other revenue.

9.2 Transfer payments totalled $256.6 million in 1990-91. **Exhibit 9.1** provides a breakdown of federal transfer payments.

EXHIBIT 9.1
FEDERAL TRANSFER PAYMENTS
1990-1991



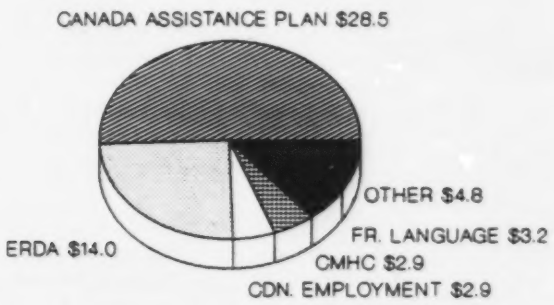
FIGURES ARE IN MILLIONS

9.3 The largest transfer payment is Equalization which accounted for $206 million or 80 percent of all transfer payments. The purpose of equalization transfers is stated in the constitution as follows, *"... to ensure that provincial governments have sufficient revenue to provide reasonably comparative levels of public services at reasonably comparable levels of taxation."*

9.4 The second largest transfer payment is Established Programs Financing (EPF) which accounted for $41.6 million or 16 percent of all transfer payments. EPF is the principal means of federal financial assistance to provinces and the territories in the area of health and higher education.

9.5 Cost-shared payments totalled $56.3 million in 1990-91. The Canada Assistance Plan (CAP) and the Economic and Regional Development Agreement (ERDA) accounted for $42.5 million or 75 percent of all cost-shared agreements. A breakdown of cost-shared revenues is shown in **Exhibit 9.2**.

EXHIBIT 9.2
FEDERAL COST-SHARED REVENUE
1990-1991



FIGURES ARE IN MILLIONS

9.6 The ERDA program became effective in 1984 and represents a ten year framework agreement supported by subsidiary agreements authorizing funding arrangements over such program areas as agriculture, fisheries, highways, and industrial development.

9.7 The CAP enables federal sharing of costs incurred by the province in providing: social assistance to persons in need; welfare services to persons in need; and work activity projects designed to improve employability of those receiving social assistance and welfare services.

RESULTS IN BRIEF

9.8 The role of the Claims Section of the Department of Finance requires clarification.

9.9 Improvements are required in the negotiation, preparation, and filing of claims with the Federal Government.

9.10 Delays in the receipt and deposit of federal funds under cost-shared agreements are costly to the Province and improvements are required.

9.11 The lengthy claims payment process under the ERDA program needs to be addressed.

AUDIT SCOPE

9.12 In accordance with Section 13 of the Audit Act, an examination was performed to assess the controls and management practices in place over the monitoring and receipt of federal revenue.

PRINCIPAL FINDINGS

Transfer Payments

9.13 The administration of federal transfer payments is the responsibility of the Economics, Statistics and Fiscal Analysis Division of the Department of Finance. Claims are not required for these payments and the amounts received are based on federal forecasts utilizing Statistics Canada data.

9.14 We reviewed the three largest transfer payment programs: Equalization, $206.2 million; Established Programs Financing, $41.6 million; and Extended Health Care, $6.7 million. The Province and the federal government utilize bank transfers which eliminate any delays in the receipt of funds. We observed that transfer payment funds are received on a regular and timely basis.

Role of the Claims Section

9.15 The Claims Section of the Department of Finance was established in 1983 to ensure shareable expenditures are claimed on a timely basis and that all expenditures claimed are bona fide expenditures under the applicable cost-shared agreements.

9.16 The responsibility for the preparation and submission of claims under some agreements has not been transferred to the Claims Section but has remained with other departments. It is not a requirement that other departments inform the Claims Section of the status of claims prepared, payments received or pending, or new agreements. Furthermore, even though the Claims Section will review drafts of agreements and amendments to ensure maximum return and to maintain consistency, departments and agencies are not required to use this service. The departments and agencies are also responsible for any follow-up on claims they have submitted to the federal government.

9.17 Although some financial information is available from the financial information system within the Department of Finance, it is not adequate to enable the Claims Section to prepare, monitor, and follow up the various claims processed. A claims management information system is required to readily access information on the amount of shareable expenditures, shareable expenditures claimed to date, date of last claim filed, and the status of claims submitted.

Recommendations

9.18 The Department of Finance should clarify and communicate to all departments and agencies the role and responsibilities of the Claims Section.

9.19 Departments and agencies, presently responsible for the preparation and submission of claims, should report to the Claims Section the status of current and outstanding claims, and have the Claims Section review all agreements and amendments.

9.20 The Department of Finance should determine the information needs of the Claims Section and implement a claims information system to help ensure all expenditures are claimed and payments received on a timely basis.

Preparation and Submission of Claims

9.21 Our review revealed many instances in which claims to the federal government were not submitted until long after actual expenditures were incurred. A combination of problems in the system for negotiating, preparing, and filing claims with the Federal Government is costing the Province as much as $120,000.

9.22 There are several reasons why claims are not filed more frequently. One is the failure of federal-provincial committees established under ERDA to negotiate the subsidiary agreements and specific project approvals prior to expenditures being committed. Although expenditures are being incurred, claims cannot be processed until such documents are duly signed.

9.23 Another reason is the Federal Government's practice of not paying current year's ERDA claims until final audited claims for the previous year are reviewed, approved, and paid. As a result, expenditures are being incurred by the Province for a two to six month period, before claims can be submitted for payment.

9.24 There are no documented guidelines for departments preparing and processing their own claims. Several instances were noted, in cost-shared programs, where one or two claims were prepared for the year instead of preparing monthly claims.

Recommendations

9.25 The federal-provincial committees established for each ERDA sub-agreement should strive to approve projects before the start of each fiscal year in order to ensure provincial expenditures are recovered on a more timely basis.

9.26 Steps should be taken to improve the provisions of cost-shared agreements pertaining to filing of claims and receipt of payments.

Cost-Shared Payments

9.27 We noted, during our review of cost-shared payment procedures, that the Canada Assistance Plan and Young Offenders Program utilize bank transfers of federal funds directly to the Province's bank account. For other cost-shared programs, it is costing the Province a substantial amount for each day the Province must wait while cheques are either in the mail or being processed through the appropriate provincial departments.

9.28 An examination of federal payment procedures for the ERDA cost-shared program revealed that the approval and payment process for interim and final claims generally took longer than 30 days and in some instances as long as 100-200 days after the claim was submitted by the Province.

9.29 ERDA is a long-term agreement supported by short-term sub-agreements of three to five years. It seems unreasonable given the long-term nature of ERDA that this much time should elapse before a claim is approved and paid.

9.30 Given that 30 days should be sufficient to approve and pay claims, we have estimated that it costs the Province approximately $60,000 annually due to these delays.

Recommendation

9.31 The Department of Finance should, in consultation with the federal government, make arrangements to obtain bank transfers for all federal revenue and seek more timely payment procedures for ERDA claims.

DEPARTMENTAL RESPONSE

9.32 The report was issued recently and a reply has not been received.

10. PROVINCIAL GOVERNMENT INVOLVEMENT IN IMMIGRANT INVESTOR PROGRAM

BACKGROUND

10.1 The federal Immigrant Investor Program was established in 1986 to create jobs and benefit small to medium sized businesses. Under this program, a foreign investor can invest in Canada through an approved syndicate or fund and receive a visa providing certain minimum requirements are met.

10.2 There are three possible investment vehicles; a single eligible business or commercial venture, a privately administered syndicate, or a government administered venture capital fund. In all cases, approval must be received from the federal government and the provincial Department of Industry before investment units can be sold on foreign markets. These investment units were initially $150,000 and are now $250,000. PEI is in competition with the other provinces in attracting foreign investors under this program.

10.3 On PEI there are five private ventures, three syndicates and one government administered venture capital fund. To gain approval under the program each had to submit a detailed offering memorandum to the provincial and federal governments. One of the main requirements under the federal guidelines is disclosure in the memorandum of all risk factors, including a statement that neither the federal or provincial government offers any guarantee or assurance of the return of the foreign investor's original investment.

RESULTS IN BRIEF

10.4 There are currently on PEI several projects which received financing under the Immigrant Investor Program for which government and some of its agencies have provided forward financing commitments.

10.5 Disclosure of forward financing commitments in the Public Accounts is not sufficient.

AUDIT SCOPE

10.6 In accordance with Section 13 of the Audit Act, we conducted an examination to determine government's involvement in the Immigrant Investor Program and the extent of any financial exposure due to the forward financing commitments.

PRINCIPAL FINDINGS

Financing Commitments

10.7 Large amounts of capital have been accessed through this program at interest rates substantially less than conventional lending rates. The securing of this

capital at low interest rates for a three to five year period means substantial savings for a number of projects. As well, due to the terms of the financing from the foreign investors, cash flow requirements are not as onerous during this period.

10.8 However, these benefits cease at the end of the loan term which will be within the next two to four years. The loans must then be repaid and alternative financing arrangements made at that time. For some of these projects, the exact form this financing will take is not yet determined.

10.9 The financing arrangements for some of these projects are complex. For nine of the projects approved under the program, forward financing commitments have been obtained from the Government for two projects, PEI Development Agency for three projects, and the Charlottetown Area Development Corporation for four projects. The Province is providing forward financing commitments for projects at Lakeside and Brudenell. These commitments are conditional obligations which were made to borrowers under the program to ensure that when immigrant investor loans are due for redemption, financing will be available to retire the debt.

10.10 Funds borrowed from immigrant investors for these projects totalled approximately $56.7 million. The contingent liability arising from the forward financing commitments on these borrowed funds is difficult to determine and will depend on the financial condition of the borrower at the redemption date and the ability for some of these projects to obtain conventional financing. At any rate, the assignment of security in certain instances and the existence of sinking funds and investments for some of these projects reduces the risk to the Province, the PEI Development Agency, and the Charlottetown Area Development Corporation. The actual amount that will have to be financed or guaranteed could be substantial but is expected to be considerably less than $56.7 million.

10.11 In addition to these nine projects, Charlottetown Area Development Corporation borrowed $17 million and Summerside Regional Development Corporation are planning to borrow $15 million under the program.

Disclosure

10.12 The readers of the financial statements of the Province, the PEI Development Agency, and the Charlottetown Area Development Corporation should be adequately informed of these forward financing commitments. The PEI Development Agency and the Charlottetown Area Development Corporation disclose, in the notes to their financial statements, adequate information on these commitments. However, the consolidated fund and all funds statements in the Public Accounts do not have sufficient disclosure and steps should be taken to provide additional information. We intend to follow up this matter next year during our audit of the Public Accounts.

CONCLUSION

10.13 A number of projects have received benefits from this program due to government's willingness to provide forward financing commitments. However, the approval of these forward financing commitments exposes the Province to additional financial obligations.

11. INFORMATION SECURITY AND CONFIDENTIALITY

BACKGROUND

11.1 Information is one of the most valuable resources of government and it should be adequately protected. Government departments and agencies collect a wide variety of information on individuals and businesses. This can include sensitive information such as medical or social services records. It would also include real estate transactions, business records, or potential government and private sector development projects. The theft or unauthorized release of any of this information could pose serious problems. It could also result in potential legal exposure to the Province.

11.2 The growth in technology has made information more accessible which increases the threat of security violations. Violations could be either accidental, such as erasing confidential data from a computer file, or intentional where an employee gains benefit by unauthorized release of data. The proliferation of computer technology makes data much more accessible. A file with the names and medical history of the entire population of PEI could be easily stored on a computer disk and carried around in a shirt pocket.

11.3 Information is also very expensive to collect and store. The cost to reproduce much of the information government has would be substantial if it were lost or destroyed. For example, information on births, deaths, or property transactions which has been collected over a period of time would be very difficult, if not impossible, to reproduce.

11.4 Some government activities by their very nature, such as vital statistics, have legislation which addresses the issue of information security and confidentiality. In addition, Treasury Board has a policy on planning and management of information systems which includes security.

RESULTS IN BRIEF

11.5 Greater emphasis needs to be given to information security and confidentiality.

AUDIT SCOPE

11.6 We examined information security and confidentiality across government in accordance with Section 13 of the Audit Act. The purpose of the examination was to determine the controls in place over security and confidentiality of information.

PRINCIPAL FINDINGS

Confidentiality

11.7 A breach of employee confidentiality represents the largest potential threat to information security. Unauthorized disclosure or release of information is difficult to prevent and violations are hard to detect. The Province has to rely, by and large, on the integrity of its employees.

11.8 To ensure employees clearly understand their obligations related to the confidentiality of information, government has a responsibility to clearly define what is expected of employees. Many other provincial governments have outlined their expectations of employees, regarding security and confidentiality of information, in a code of conduct. Ontario and Quebec also have privacy legislation which prohibits the unauthorized disclosure of personal information.

11.9 In a previous report, we recommended a code of conduct be prepared, and although some progress has been made one has not yet been developed.

11.10 All employees, except casual staff, are required as a condition of employment to take the Oath of Office. The Oath essentially requires that public servants not disclose or make known without proper authorization any matter that they become aware of by virtue of their employment. Casual staff can have access to confidential information and there is no apparent reason why they are excluded from taking the Oath of Office.

Policy

11.11 There is a Treasury Board policy on Planning and Management of Information Systems. The security section of the policy was issued to assist departments in ensuring that data information systems and processing facilities are protected, and meet the security requirements to maintain their integrity and confidentiality.

11.12 We examined departmental procedures and noted the following:

- Most departments did not have documented policies and procedures related to information confidentiality and security.
- Departments do not classify their information according to its sensitivity and security requirements.
- Responsibility for information security has not been clearly assigned in the departments. This increases the risk that procedures to protect confidentiality are not carried out.
- Departments do not document employees' responsibilities regarding security and confidentiality of information.
- Procedures were not in place to report, to the Deputy Minister, instances where security and confidentiality were breached.

RECOMMENDATIONS

11.13 The Oath of Office should be taken by all casual staff with access to sensitive information.

11.14 Each department should develop procedures to ensure the confidentiality and security of information is protected.

12. LOCAL PURCHASE ORDERS

BACKGROUND

12.1 Local Purchase Orders (LPOs) are used for in-province purchases under $250, for airline tickets, and for advertising expenditures. Section 9 of the Regulations to the Public Purchasing Act governs the use of Local Purchase Orders. Approximately 13,000 LPOs totalling $1.1 million were issued by 13 departments during 1990-91.

RESULTS IN BRIEF

12.2 LPOs were not properly monitored and controlled by departments.

12.3 Instances were noted where departments did not comply with the Public Purchasing Act regarding the use of LPOs.

AUDIT SCOPE

12.4 Our audit was performed in accordance with Section 13 of the Audit Act. Our objective was to determine if LPO usage complied with the Public Purchasing Act.

PRINCIPAL FINDINGS

Monitoring of LPOs

12.5 The Public Purchasing Act requires that departments conduct annual audits to ensure LPOs are not presigned, not used cumulatively to purchase an item with a unit price exceeding $250, and not used to purchase a group of similar items where the total unit price is less than $250. This requirement for annual audits came into effect in February 1990.

12.6 Six of the eleven departments we interviewed were unaware of the annual audit requirement or unsure of the necessary procedures. While four of these departments perform some review of LPO usage, the other two conduct no review or assessment.

12.7 Where audits are not conducted by departments there is greater potential for improper use of LPOs. The Director of Purchasing acted promptly on our findings and informed departments of the annual audit requirement. He also clarified the necessary procedures to meet the requirements of the Public Purchasing Act.

12.8 The Regulations to the Public Purchasing Act require LPO books to be returned to the department administrator before a new book is issued. This enables administrators to monitor LPO transactions and take corrective action on a timely basis. Six departments did not require books to be returned prior to the issue of a new book.

Safeguarding Procedures

12.9 Proper safeguarding of LPO books is important because they have a potential maximum value of $6,250 for regular purchases and an unlimited value for airline tickets and advertising. Such safeguarding includes restricting access, maintaining a distribution list, and periodically examining LPO books to verify their proper use.

12.10 Six departments did not maintain a proper listing of LPO books. Two did not restrict access to LPO books.

Use of LPOs

12.11 In our audit we found a large number of LPOs that were not properly authorized; 69 of these totalling $5,700 were issued by the Department of Tourism and Parks. Staff of that department informed us that LPOs are often issued without signed authorization and Accounting Services Division is relied upon to return them to the department for signature. Another 36 unauthorized LPOs totalling $3,900 were issued by other departments. The other 15 LPOs totalling $2,800 were supported by invoices dated prior to the dates of the LPOs, indicating the transactions were authorized after they occurred.

12.12 Eleven LPOs totalling $3,100 were issued to out-of-province vendors contrary to the Regulations to the Public Purchasing Act, which restricts the use of LPOs to purchases within PEI.

12.13 Thirteen LPOs were found over the spending limit of $250. These expenditures totalled about $12,000.

12.14 LPOs are used to purchase advertising. Eight departments indicated that when they issue LPOs for advertisements, the price of the advertisement is not filled in because it is not known. However, other departments advised us they do obtain quotes and fill in the dollar amounts prior to issuing such LPOs.

RECOMMENDATIONS

12.15 Departments should conduct annual audits of LPOs in accordance with the Public Purchasing Act.

12.16 The procedures for using LPOs to purchase advertising should be examined and changes made to improve control.

MANAGEMENT RESPONSE

12.17 The Director of Purchasing has contacted department administrative personnel notifying them of the issues identified in our audit report.

13. HIGHWAY SCALES

BACKGROUND

13.1 Highway Safety Division of the Department of Transportation and Public Works is responsible for the operation of the highway scales. The primary objective is to enforce the Vehicle Weights Regulations to the Roads Act. Other legislation is also administered or enforced by the highway scales staff.

13.2 There are two scalehouses on PEI, one at Carleton Siding and the other at Wood Islands. A mobile unit also works throughout the Province from March to December.

13.3 Expenditures during the 1990-91 fiscal year totalled about $360,000.

RESULTS IN BRIEF

13.4 Revenue collected is not being adequately recorded and controlled.

13.5 Past problems with scalehouse hours of operation have been appropriately dealt with.

13.6 Information on drivers and vehicles is not always readily accessible to scalehouse employees.

AUDIT SCOPE

13.7 We conducted an examination of the highway scales in accordance with Section 13 of the Audit Act. Our objectives were to determine the extent that highway scales employees administer or enforce provincial legislation and to assess the system of collecting and recording revenue.

PRINCIPAL FINDINGS

Revenue Records

13.8 We were unable to verify the amount of revenue generated because of inadequate accounting records. Management estimates that annual revenue is approximately $270,000. Records were maintained at the Wood Islands scalehouse but we found these to be incomplete. Records were not kept of any revenue received at the Carleton Siding scalehouse. In addition, revenue collected by scalehouse employees was not balanced to revenue transferred to Highway Safety Division central office.

13.9 Management intends to implement a computerized system that will generate receipts, record transactions, and balance the records.

13.10 We noted many instances where revenue collected at the Wood Islands scalehouse was not remitted to the central office on a timely basis. In addition, a number of Summary Offence Tickets issued at the Wood Islands scalehouse were not

accounted for. The lack of accounting records at the Carleton Siding scalehouse prevented us from determining whether similar problems existed there.

Scalehouse Hours of Operation

13.11 We reported in our 1990 Annual Report that the scalehouse hours of operation did not meet operational requirements pertaining to agriculture related legislation. An agreement has recently been finalized with the Department of Agriculture which has dealt appropriately with this problem.

Enforcement of the Dangerous Goods (Transportation) Act

13.12 Random spot checks were not conducted in the past to determine whether dangerous goods were transported in trucks without proper placards, because scalehouse employees did not have the means to reseal trucks which were opened for inspection. Management informed us that seals were issued to employees in December 1991 and spot checks are now carried out.

13.13 In the past, employees did not lay charges for offences related to the transportation of dangerous goods because the Regulations to the Summary Proceedings Act did not include such a provision. The Regulations were changed in August 1991 and management informed us that violators will now be charged with any offences.

Access to Licensing/ Registration Records

13.14 Whenever a driver fails to show a driver's license or vehicle registration documents, scalehouse employees obtain pertinent information by telephoning a Highway Safety Division office. Inquiries outside office hours must be followed up the next day. Management said the feasibility of allowing the scalehouse employees direct access to the necessary information is being considered.

RECOMMENDATIONS

13.15 The Department should implement procedures to ensure that all revenues collected are recorded and balanced on a regular basis.

13.16 Employees should be held accountable for all revenues collected and all Summary Offence Tickets provided to them.

13.17 Scalehouse employees should have access to any information necessary to perform their daily work activities.

DEPARTMENTAL RESPONSE

13.18 Highway Safety Division management has generally agreed with our report.

14. LAKESIDE GOLF COURSE

SUMMARY

14.1 Under Subsection 14(d) of the Audit Act, we conducted a review of the tendering process for the **construction phase** of the Lakeside Golf Course at the request of Executive Council.

14.2 From our review of the tendering process we concluded that: the Provincial Government did not use influence to have the contract awarded to Island Coastal Ltd.; the Maritime Procurement Agreement was not violated; and the Lakeside Development Corporation did not act inappropriately.

14.3 A special report was issued to Executive Council containing our detailed findings, and the full report was made public in August 1991.

REPORTS ON FINANCIAL AUDITS

15. INTRODUCTION TO FINANCIAL AUDITS

BACKGROUND

15.1 Section 13 of the Audit Act establishes the mandate for financial audits of the Public Accounts, Crown controlled or owned corporations, and the trusts and funds held by any agency of government insofar as they are not subject to financial audit by an external auditor.

15.2 A substantial part of the office's resources are required to perform financial audits required by legislation. The objective of these audits is to express an opinion on the financial position and operating results of these entities. Therefore, the main output from these audits is often limited to the standard auditor's report on the financial statements.

15.3 In addition to issuing an auditor's report on the financial statements, the auditor may observe problems in the quality of records and financial controls. Problems may also be observed in other areas. In these cases audit findings and recommendations are reported in a management letter addressed to the client. A summary of the more significant points made in these letters is provided in subsequent sections.

FINANCIAL STATEMENT AUDITS

15.4 Following is a list of financial statement audits performed this year and the expenditures of each entity.

AUDIT ENTITY	ANNUAL EXPENDITURES
Public Accounts	$781,803,000
Hospital and Health Services Commission	120,608,000
Liquor Control Commission	29,982,000
Housing Corporation	11,328,000
Civil Service Superannuation Fund	9,194,000
Agricultural Development Corporation	8,760,000
Teachers' Superannuation Fund	8,683,000
Grain Elevators Corporation	5,369,000
Lotteries Commission	3,123,000
Charlottetown Veterinary Clinic	1,765,000
Museum and Heritage Foundation	995,000
Crown Building Corporation	611,000
MLA Pension Fund	603,000
Supreme Court Trust Accounts	195,000
Advisory Council on the Status of Women	159,000
Human Rights Commission	134,000
Self Insurance and Risk Management Fund	124,000
Carnegie Endowment Fund	12,000
Official Trustee	-

15.5 Financial statements are management's responsibility and reflect management's assertions. They provide information that is used to make important economic decisions. It is important that the reader has confidence in the quality of that information.

15.6 Financial statements reflect the assertions of Government and the Boards of Directors of Crown agencies, as to the results of the entity's operations, its cash flows for the year, and its financial position at year end. Financial statements are normally prepared in accordance with generally accepted accounting principles, which provide a recognized way of accounting for the actions and decisions of Government and the Boards of Crown agencies. The financial statements are prepared by management and approved by the Board before they are submitted to the Ministers responsible and the Legislature.

15.7 In the preparation and approval of financial statements, Government and the Boards of Directors must exercise considerable judgement in applying the appropriate accounting principles. They must also use their judgement in estimating the value of such assets as accounts receivable and inventories, and determining liabilities.

15.8 The auditor's responsibility is to provide an opinion on the financial statements based on an examination carried out in accordance with generally accepted auditing standards. These standards have been established over time and continue to evolve with the changing economic environment. They represent the professional performance required of all auditors. The auditor is independent of management and can objectively assess the accounting principles used, and the estimates and other decisions made by management as reflected in the financial statements. The result is an Auditor's Report which adds credibility to the assertions of management.

NEW AUDITOR'S REPORT

15.9 In October 1990, the Canadian Institute of Chartered Accountants approved a new standard Auditor's Report. The new standard report and the related recommendations are effective for reports dated on or after March 1, 1991, although earlier adoption is encouraged. The new expanded standard audit report explains more fully the nature and extent of the auditor's work, and the degree of assurance it provides.

AUDITOR'S REPORT

I have audited the balance sheet of .....
as at ....., 19..... and the statements of income, retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of .....
as at ....., 19..... and the results of its operations

and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

City (signed)
Date AUDITOR GENERAL

REPORT CONCEPTS

15.10 Some important concepts pertaining to the auditor's report that require explanation are the following:

"reasonable assurance"
It is not cost effective for the auditor to look at all evidence supporting the amounts and disclosures in the financial statements. The auditor obtains reasonable but not absolute assurance. He or she determines what, when, and how much to test on the basis of his or her professional judgement and expertise, with due regard to generally accepted auditing standards.

"material misstatement"
A material misstatement is one significant enough to affect the decision of a reader with reasonable knowledge of business and economic activities. Misstatements arise from departures from fact, inappropriate estimates, and omissions of information in relation to the standard of generally accepted accounting principles.

"An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation."
An audit involves the exercise of professional judgement. The auditor is trained in understanding accounting principles and evaluating estimates which affect financial statements from an overall perspective. The auditor must know about the entity's activities, and the environment in which it operates.

"in my opinion"
The auditor's report is not a statement of fact. It expresses an objective, professional opinion.

"present fairly" and **"in accordance with generally accepted accounting principles"**
These two phrases are linked in the auditor's report. Together they reflect the essential message of fair presentation in the financial statements when measured against the standard of generally accepted accounting principles.

"in all material respects"
This phrase emphasizes the concept of materiality discussed above.

15.11 The new auditor's standard report should provide a clearer message concerning the role and work of the auditor. It also indicates that the financial statements are the responsibility of management.

16. PUBLIC ACCOUNTS

BACKGROUND

16.1 The Financial Administration Act requires the Minister of Finance to table the Public Accounts annually in the Legislative Assembly.

16.2 The Public Accounts include two main sets of financial statements; the Consolidated Fund and the All Funds. The Consolidated Fund financial statements provide the financial position and results of operations for government excluding Crown corporations. The second set of financial statements provides a summary financial picture of government by including the Consolidated Fund plus most Crown corporations.

16.3 In 1981, the Public Sector Accounting and Auditing Committee (PSAAC) was established by the Canadian Institute of Chartered Accountants. Under this authority, the Committee issues recommendations with respect to matters of accounting and auditing in the public sector. The objective of the Committee is to make recommendations that will serve to improve and harmonize public sector financial reporting, accounting and auditing practices.

RESULTS IN BRIEF

16.4 Implementation of public sector accounting and auditing standards is progressing, however, several significant issues remain outstanding.

16.5 Unfunded pension liabilities have risen dramatically and the associated funding and accounting issues must be dealt with.

16.6 The appropriate accounting treatment for capital advances to hospitals and school units needs to be determined.

16.7 Improvements in the summary financial statements are needed to provide more meaningful and complete information.

16.8 The method for establishing the sales tax provision is inadequate.

AUDIT SCOPE

16.9 In accordance with Section 13 of the Audit Act, we performed an audit of the Public Accounts for the year ended March 31, 1991.

PRINCIPAL FINDINGS

Objectives of the Public Accounts

16.10 The Public Accounts serve as a means by which the government provides an accounting for its administration of the fiscal affairs of the Province. To account for the full nature and extent of the affairs for which the government has a

responsibility, the Public Accounts includes information on its main operations and also on the combined activities of government and most crown corporations. This combined information serves as a summary and provides financial accountability information in this broader sense.

16.11 The Public Accounts of Prince Edward Island have contained summary financial statements for some time. Many jurisdictions still do not provide this type of information and the efforts of the Department of Finance in this regard should be recognized. Many of the comments made in the following sections are intended to generate discussion and make suggestions to improve the relevance, reliability and usefulness of the Public Accounts for legislators and other users.

General Standards of Financial Statement Presentation

16.12 Public Sector Accounting and Auditing Committee (PSAAC) Statement 3 provides the framework for financial statement presentation and makes recommendations on a number of specific areas. We continue to work with Department of Finance officials and progress is being made in improving disclosure and financial statement presentation. In addition to Statement 3, PSAAC has issued several additional statements providing guidance on specific areas such as pension liabilities.

16.13 Making the changes necessary to improve accounting and reporting standards for an entity as large and complex as government is not an easy task. However, the process is evolving and the members of the Legislative Assembly and other users will benefit from improved accounting and reporting standards.

16.14 There are three significant areas pertaining to the Public Accounts that need to be dealt with this year. They are unfunded pension liabilities, advances to school units and hospitals, and improved summary financial statements.

Unfunded Pension Liabilities

16.15 An unfunded pension liability arises when the pension entitlements owed to employees for services rendered exceed pension fund assets. The information below summarizes the unfunded pension liabilities of the various pension funds as determined by actuarial valuations.

(In millions of dollars)

	1990	1987
Civil Service Superannuation Fund	$107.1	$ 63.2
Teachers' Superannuation Fund	215.1	128.9
MLA Pension Fund	9.6	5.1
Total	$331.8	$197.2

16.16 The two aspects of the pension liability issue that need to be addressed are the funding requirements and the proper accounting for the unfunded liabilities.

16.17 The funding of these plans has reached a critical stage. The Province is committed, by legislation, to make payments if fund assets are insufficient to provide pension payments. The magnitude of this issue is further illustrated if we

compare the total unfunded liability of $332 million with the Province's consolidated fund net debt of $219 million at March 31, 1991. An immediate plan of action is required by government to ensure the obligations of these funds can be met. We are advised that changes will be made in the immediate future to reduce the unfunded liability of the Civil Service Superannuation Fund. Also, a proposal to reduce the unfunded liability for the Teachers' Superannuation Fund is being worked on.

16.18 Accounting for the unfunded pension liabilities is a separate issue. No matter what action is taken to deal with the funding problem, the unfunded liabilities of the funds should be adequately accounted for and disclosed. Otherwise, the financial position of the Province will not be properly reflected in the Public Accounts.

16.19 The accounting for pension fund liabilities was a very difficult issue for PSAAC to come to grips with. Much debate occurred on this item and input was considered from all ten provinces and the federal government. PSAAC ultimately issued recommendations requiring the disclosure of the full amount of the unfunded pension obligations as a liability on the balance sheet.

16.20 The Public Accounts currently disclose the unfunded liabilities for the pension funds in a note to the financial statements. This disclosure is no longer sufficient and steps will have to be taken to recognize the unfunded pension liabilities on the balance sheet. Because the unfunded liabilities of these plans may be altered substantially by changes being considered, the accounting for these unfunded liabilities should be dealt with when the changes are approved. We are willing to work with the Department of Finance in determining a practical approach to record the unfunded pension liabilities.

Advances to School Units and Hospitals

16.21 The Province builds schools and hospitals and turns them over to the school units and hospitals in exchange for a mortgage or a debenture representing the cost of these assets. The school units and hospitals then make annual payments until the debt is paid. The Province records this debt as a capital advance and a detailed explanation is provided in the notes to the financial statements. Capital advances at March 31, 1991 totalled $131 million. The position tnat these capital advances are not financial assets is evolving from the PSAAC process. This would result in these expenditures being written-off similar to other capital expenditures.

16.22 Although a final recommendation has not yet been made by PSAAC, it is anticipated changes will have to be made in the accounting treatment for these transactions in the Public Accounts.

Net Debt

16.23 Recording the total unfunded pension liabilities and changing the accounting treatment of capital advances would have a dramatic impact on the net debt of the province. The effect of these changes would be an increase in the net debt from $219 million to $682 million.

16.24 Although this information, in the past, has been included in the notes to the Public Accounts, it has not been included as part of the net debt figure on the balance sheet. There is growing pressure to include these items as part of net debt.

Summary Financial Statements

16.25 The Public Accounts contains an All Funds financial statement, which accounts for government departments and most crown agencies as a single entity.

16.26 PSAAC Statement 4 addresses the principles and criteria for determining which activities and Crown agencies should be included in government financial statements and if included, how to account for them. The Province complies with this statement in large measure, however, some Crown agencies are not being accounted for in accordance with this statement. The adoption of Statement 4 would result in more meaningful and complete financial statements and steps should be taken to comply with its requirements.

Future Progress

16.27 Each province and each set of financial statements are unique and no rule of general application can be phrased to suit all circumstances. The determination of what information is required in a particular case requires the exercise of professional judgement. Our intention is to work with the Department of Finance to incorporate the changes that are evolving. In our view, this approach over time will result in financial statements that will best serve the needs of the members of the Legislative Assembly and other users.

Non-Interest Bearing Loans

16.28 The Province currently has four non-interest bearing loans:

PEI Hog Commodity Board	$ 266,000
PEI Crown Building Corporation	$1,079,000
PEI Liquor Control Commission	$ 845,000
Georgetown Shipyard Inc.	$ 578,000

16.29 The Financial Administration Act requires the Province to charge interest on all loans at a rate no less than its borrowing cost. Also, two of the loan balances have remained unchanged for several years; PEI Hog Commodity Board (1980) and Georgetown Shipyard Inc. (1981), suggesting there is no intention to collect these loans. The interest rate charged on loans should comply with the Financial Administration Act and loan balances should be collected or written down to reflect their realizable value.

Sales Tax Provision for Losses

16.30 We indicated in previous reports that the provision for losses for sales tax receivable was inadequate. At March 31, 1991 a $7,000 provision for possible losses was recorded. Revenue Division staff have identified $400,000 in receivables from vendors who were in receivership or bankruptcy as of February 1991. There was also an additional $1.4 million in past due receivables at March 31, 1991. The method of determining the sales tax loss provision should be based on the collectibility of the accounts outstanding at year end.

Accrued Employee Benefits

16.31 Currently, there is no disclosure regarding the accounting treatment for accrued employee benefits such as vacation entitlements, and retirement and severance allowances. There should be note disclosure indicating these costs are not

accrued on the financial statements. Consideration should be given to recording these costs on the financial statements.

Surplus (Deficit) of Crown Agencies

16.32 Section 16 of the Audit Act requires the Auditor General to report any deficits of Crown agencies not covered by appropriations and any surpluses not paid into the Consolidated Fund. For the year ended March 31, 1991 the following entities have been directed by the Lieutenant Governor-in-Council to retain their surplus.

Crown Agency	Surplus
PEI Agricultural Development Corporation	$1,182,400
Enterprise PEI Inc.	$ 166,436

Cancellation or Discharge of Debts

16.33 Section 16 of the Audit Act requires the Auditor General to report the total amount of any claims, obligations, debts or money due to the Province that have been discharged, cancelled, and released under Section 26 of the Financial Administration Act. The amount cancelled or discharged under this Section in 1990-91 was $331,000.

DEPARTMENTAL RESPONSE

16.34 Department of Finance officials are taking action on the points raised.

17. PENSION FUNDS

BACKGROUND

17.1 Teachers, public servants, and Members of the Legislative Assembly are entitled to receive pension benefits pursuant to provisions of the Teachers' Superannuation Act, the Civil Service Superannuation Act, and the Legislative Assembly Retirement Allowance Act. The employers and members of each fund make contributions; investment income is credited to the fund; and payments to pensioners and terminating members are charged to the fund. The fund investments are managed by investment managers external to government.

RESULTS IN BRIEF

17.2 Actuarial valuations of the Teachers' Superannuation Fund, the Civil Service Superannuation Fund and the MLA Pension Fund report substantial unfunded liabilities for accrued pension benefits. Future funding requirements need to be addressed.

17.3 We found compliance and administrative issues that require attention.

AUDIT SCOPE

17.4 In accordance with Section 13 of the Audit Act, we performed audits of the Civil Service Superannuation and MLA Pension Funds for the year ended March 31, 1991 and of the Teachers' Superannuation Fund for the year ended June 30, 1991.

PRINCIPAL FINDINGS

Unfunded Liabilities

17.5 The unfunded liabilities of the pension funds have increased substantially. The actuarial valuation of the Teachers' Superannuation Fund as of July 1, 1990 reported an unfunded liability of $215.1 million. This is an increase of 67 percent over the actuarial valuation of July 1, 1987 which reported an unfunded liability of $128.9 million.

17.6 An actuarial valuation of the Civil Service Superannuation Fund as of April 1, 1990 reported an unfunded liability of $107.1 million. This is an increase of 69 percent over the actuarial valuation of April 1, 1987 which reported an unfunded liability of $63.2 million.

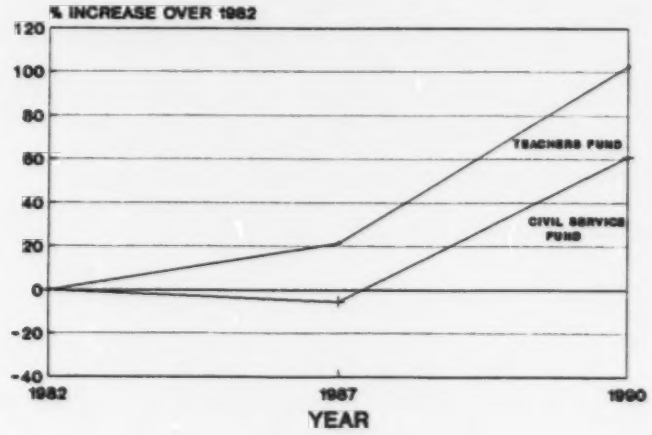
17.7 An actuarial valuation of the MLA Pension Fund as of April 1, 1990 reported an unfunded liability of $9.6 million compared to $5.1 million at April 1, 1987. This is an increase of 88 percent over the unfunded liability at April 1, 1987.

17.8 The combined unfunded liability for the three funds as of 1990 is $331.8 million. To say that the pension funds are in a serious financial position would be an understatement. Section 16 of this report on the Public Accounts elaborates on the unfunded liability issue in greater detail.

17.9 According to legislation, payments out of the Teachers' Superannuation Fund and Civil Service Superannuation Fund are guaranteed by the Province. The Legislative Assembly Retirement Allowance Act provides for appropriations to be made from the Consolidated Fund to defray costs of pensions under the Act.

17.10 **Exhibit 17.1** shows the growth in the unfunded liability of the Teachers' and Civil Service pension funds since 1982.

EXHIBIT 17.1
PENSION FUNDS
UNFUNDED LIABILITY



Teachers' Superannuation Fund

17.11 Our audit detected overpayments of $6,500 were made to pensioners from July to October 1991; the cost of living increase was inadvertently doubled for six pensioners; and a pensioner received pension benefits 2.5 months prior to being eligible. Staff indicated all of these overpayments have been subsequently repaid to the fund.

17.12 Subsection 17(1) of the Teachers' Superannuation Act indicates the election to receive a refund of ten or more years of service contributions is final. In one case a teacher was allowed to repay a refund of 11.8 years and buy back service which is contrary to the Act.

17.13 We observed two similar buybacks of prior Air Marshall Johnson School Service which were not treated consistently. One teacher was charged for employer contributions to buy back service prior to September 1979 while the other was not. The problem here is these buybacks do not fit within a specific section of the Act. Without clear guidance, the potential for other inconsistencies will remain.

17.14 We noted the rate of interest charged on buyback contributions was not in accordance with Section 28 of the Teachers' Superannuation Act.

Civil Service Superannuation Fund

17.15 We noted problems in the calculation of transfers-in for employee contributions to the Fund under Section 7 of the Act.

17.16 In 1982 Executive Council authorized the Minister of Finance to enter into a reciprocal transfer agreement with the Teachers' Superannuation Commission. A signed copy of this agreement was not on file at the time of our audit.

RECOMMENDATIONS

17.17 Greater care should be exercised to ensure pension fund transactions are processed in accordance with the Acts and Regulations.

17.18 Clear directions should be provided to staff to ensure pension fund transactions are processed consistently.

MANAGEMENT RESPONSE

17.19 Management intends to take action on the points raised.

18. APPROPRIATIONS

SUMMARY

18.1 Our audit of appropriations included a review of the systems and procedures for the administration of the Province's annual budget. This required an audit of appropriations approved by the Legislature, special warrants approved by Executive Council on the recommendation of Treasury Board, and transfers approved by Treasury Board.

18.2 In **SCHEDULES A** and **B** attached to this report, we have compared appropriations with actual expenditures in accordance with the classifications in the 1990 Appropriation Act.

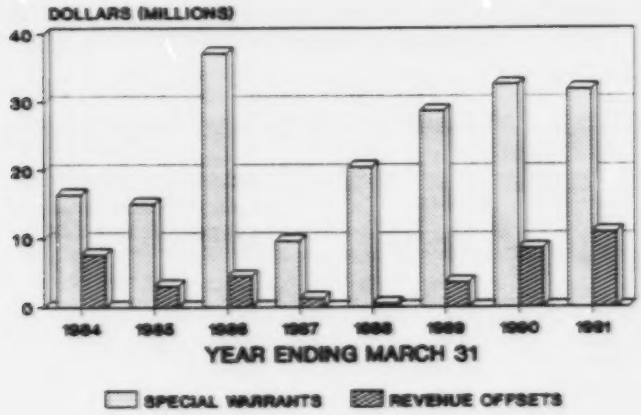
	SCHEDULE A ORDINARY ($000'S)	SCHEDULE B CAPITAL ($000'S)	TOTAL ($000'S)
Appropriations			
Original Act 1990 Session	$678,679	$ 46,450	$725,129
Special Warrants	31,890	-	31,890
Ordinary/Capital Net Transfers	8	(8)	-
Total Appropriations	710,577	46,442	757,019
Actual Expenditures	696,191	41,479	737,670
Underexpenditures	$ 14,386	$ 4,963	$ 19,349

18.3 Section 16(h) of the Audit Act requires me to list in detail appropriations made by special warrant and the purpose of such appropriations. Details are shown in **SCHEDULE C** attached to this report.

18.4 For the 1990-91 fiscal year, special warrants totalled $31.9 million compared to $32.5 million in 1989-90. Of the special warrants issued for 1990-91, $8.2 million was offset by revenue from the Federal Government and $2.7 million was offset by sequestered funds from other departments. The result was a net increase in provincial appropriations of $21 million. Revenue offsets for special warrants are detailed in **SCHEDULE C**.

18.5 **Exhibit 18.1** indicates the special warrants issued and corresponding revenue offsets over the last eight years.

EXHIBIT 18.1
SPECIAL WARRANTS



19. PROVINCIAL DEPOSIT RECEIPTS

BACKGROUND

19.1 Provincial Deposit Receipts are governed by the Deposit Receipt Act and are administered by Accounting Services Division of the Department of Finance. Deposit Receipts provide the Province with financing and the public with an investment opportunity.

19.2 The balance of deposit receipts was $47.2 million as at March 31, 1991, an increase of 9 percent from the previous year.

RESULTS IN BRIEF

19.3 Controls over deposit receipt transactions need to be strengthened.

19.4 The Procedures and Policies Manual needs to be updated.

AUDIT SCOPE

19.5 In accordance with Section 13 of the Audit Act, we performed an audit of Provincial Deposit Receipts for the year ended March 31, 1991. This audit is performed on a cyclical basis.

PRINCIPAL FINDINGS

Limited Segregation of Duties

19.6 An important internal control over cash receipts and disbursements is an adequate division of duties in performing key functions.

19.7 We noted during the audit that the same individual handled the receipt of cash, recorded transactions, and performed reconciliation procedures. Given the dollar value and volume of transactions involved, this problem should be addressed immediately.

Controls over Cash Receipts

19.8 During our review of controls over cash receipts, we noted that:

- Receipts were not always deposited daily and properly safeguarded.
- Verification procedures did not exist to ensure all monies received were deposited.
- Procedures were not in place to ensure that all receipts and disbursements were processed correctly.

Procedures and Policies Manual

19.9 The Procedures and Policies Manual contains information on the deposit receipt system. It has not been updated to reflect changes in the system. It is important that employees responsible for the system know the procedures required. We also noted that the manual does not sufficiently deal with the following areas: reconciliation procedures; depositing of receipts; error correction procedures; redemption procedures; and telephone inquiries.

19.10 We were advised that the Procedures and Policies Manual is being updated.

Other Matters

19.11 In addition to the above issues, the following areas need to be addressed:

- Interest expense from the deposit receipt system should be reconciled to the province's appropriation system.
- The signing authority function should be reviewed and updated.
- There is inadequate supporting documentation for correcting entries.

RECOMMENDATIONS

19.12 An appropriate division of duties should be in place for processing deposit receipt transactions.

19.13 Controls should be implemented to ensure that all monies received are deposited and properly recorded.

19.14 The Procedures and Policies Manual should be reviewed, updated, and communicated to appropriate staff.

DEPARTMENTAL RESPONSE

19.15 Accounting Services Division has responded to our recommendations with consideration given to all points raised. Several recommendations have already been implemented.

20. DEPT. OF TRANSPORTATION AND PUBLIC WORKS PAYMENT AUTHORIZATIONS

BACKGROUND

20.1 The Department of Transportation and Public Works had expenditures during the 1990-91 fiscal year totalling about $65 million, excluding salary costs.

AUDIT SCOPE

20.2 The Department of Finance asked us to investigate the payment procedures in the Department of Transportation and Public Works. Our work was performed in accordance with Section 13 of the Audit Act.

PRINCIPAL FINDINGS

Payment Control Weaknesses

20.3 A duplicate payment of $109,207 was brought to our attention and followed up during our audit. In addition we discovered a $3,288 overpayment. In both cases, the overpayments occurred because the initial payment was supported only by a progress estimate form generated by the Department, and did not include a contractor's invoice. These payments were subsequently recovered by the Department.

20.4 In another case, a $1,224 overpayment occurred for equipment rental. One payment was supported by an invoice and the other payment was supported by an equipment rental form prepared by the Department without a supplier's invoice. This overpayment was later recovered by the Department.

20.5 In addition, in a sample of 19 payments for equipment rentals, we noted 15 payments totalling $24,521 that were not supported by invoices and the only backup was equipment rental forms generated by the Department.

RECOMMENDATIONS

20.6 Payments for highway contracts should be supported by the contractor's invoice, accompanied by a progress estimate form.

20.7 Payments for equipment rentals should be made only upon receipt of a contractor's invoice, matched with an internally prepared equipment rentals form.

DEPARTMENTAL RESPONSE

20.8 The Department has responded to our observations and recommendations.

21. PEI GRAIN ELEVATORS CORPORATION

BACKGROUND

21.1 The Corporation was established under the Grain Elevators Corporation Act. There are three elevators located at Roseneath, Elmsdale, and Kensington.

21.2 The objectives of the Corporation as stated in the Act are:

- to stimulate feed grain production in the Province;
- to bring uniformity to the industry through marketing of grain produced in the Province;
- to provide facilities for the central marketing, drying, and storage of grain; and
- to provide distribution outlets for grain producers, livestock feeders, and the feed industry.

RESULTS IN BRIEF

21.3 Weaknesses still exist in the collection and monitoring of accounts receivable.

21.4 The Corporation's Policy Manual needs to be updated.

21.5 Controls over grain purchases and special bin contracts require improvement.

AUDIT SCOPE

21.6 A financial statement audit was performed for the year ended March 31, 1991 under the authority of Section 13 of the Audit Act.

PRINCIPAL FINDINGS

Financial Condition

21.7 Sales for the year were $4.2 million and the Corporation showed a net loss of $79,000 after including the provincial operating grant of $209,900. This is an improvement over the loss of $306,000 recorded in the previous year. The Corporation utilizes facilities provided by the Province at no charge to the Corporation. In addition, during 1990-91 the Department of Transportation and Public Works incurred $981,000 in expenses, on behalf of the Corporation.

21.8 In its report to the Legislature last year, the Public Accounts Committee was very concerned about the operating losses of the Corporation and wanted the Corporation to implement a prudent business plan to insure that the Corporation will become fully stable financially. To date, the Corporation has not finalized such a business plan.

21.9 We were advised that the Corporation has been reviewing its activities to minimize its losses. Currently a study is being carried out to determine the true costs of all services provided. Once this review is completed, a detailed action plan for the Corporation will be implemented.

Collection of Receivables

21.10 The following information on accounts receivable was determined during the audit:

	March 31 1991	March 31 1990	March 31 1989
Sales	$4,222,939	$2,701,400	$4,062,400
Accounts receivable	$520,474	$528,000	$520,200
Value of accounts over 60 days past due	$207,261	$188,100	$108,000
Percentage of total	40%	36%	21%
Value of accounts considered doubtful	$94,959	$89,600	$19,900
Percentage of total	18%	17%	4%

As recommended in prior years, more attention is required in the collection and monitoring of accounts receivable. The Corporation still does not have written policies on credit granting and collections. Such policies are necessary to reduce the risk associated with credit sales. The Board advised that priority will be given to establishing credit and collection policies.

Corporate Policy Manual

21.11 The Corporation Policy Manual should be updated regularly for any new policies or changes implemented by the Board. A Corporation Policy Manual was approved during 1988-89. A number of policy issues were supposed to be clarified by the Board. At the time of our audit several of these issues had not been addressed or documented.

Lupin Pool Contract

21.12 During the 1990 harvest season, the Corporation participated in a Lupin Pool Co-op. Guidelines for the program were developed and verbally agreed to by both parties, however, a formal agreement was never signed.

21.13 Relying on a verbal agreement presents an unnecessary risk to the Corporation because if the Co-op does not comply with the original guidelines, the Corporation could have trouble defending their position legally.

Special Bin Contracts

21.14 The special bin policy of the Corporation is to collect a 15 percent deposit on all grains at the time of booking until the contract is completed. During our testing of 109 bin contracts, we found 3 contracts that were not signed, 19 with no down payments, and 11 with a 10 percent down payment.

Graded Storage Receipts

21.15 All graded storage receipts are to be signed by certified graders. The graders use a representative sample of grain purchased to determine the protein and moisture level. This information is used in the detailed calculation of the tonnage received and price of grain.

21.16 During our testing of graded storage receipts, we found 13 receipts, totalling $12,589 that were reviewed and signed by unauthorized personnel. This could result in incorrect tonnage calculations.

RECOMMENDATIONS

21.17 A policy for collection and credit granting should be established and documented as soon as possible.

21.18 The Corporation should update its Policy Manual.

21.19 The Corporation should ensure all special bin contracts are signed by both parties and the special bin policy should be adhered to.

21.20 All graded storage receipts should be signed by authorized personnel.

CORPORATION RESPONSE

21.21 Management has agreed with our observations and recommendations and is in the process of dealing with the issues raised.

22. PEI AGRICULTURAL DEVELOPMENT CORPORATION

BACKGROUND

22.1 In July 1990, operations of the PEI Crop Insurance Agency and the PEI Land Development Corporation were amalgamated to form the PEI Agricultural Development Corporation.

22.2 At March 31, 1991 the Corporation had $42.9 million in assets, of which $28.8 million was invested in leased properties. Expenditures for the year totalled $8.8 million and total government contributions were $3.2 million.

22.3 At March 31, 1991 the Corporation had title to approximately 52,000 acres of farm properties, of which 44,000 were leased, and 8,000 were available for sale or lease. Farm lands under the Corporation's control at March 31, 1991 represented an estimated 8 percent of the total farm properties in the Province.

22.4 The crop insurance offered to farmers insures against losses of production from specified diseases or adverse weather conditions. A five year agreement has been entered into with the federal government effective April 1, 1990 which provides for equal cost sharing of administrative expenses and an equal contribution by both governments toward 50 percent of the insurance premiums. Insurance premium revenues totalled $2.8 million, of which 50 percent was paid by farmers.

RESULTS IN BRIEF

22.5 Some management agreements between the Department of Agriculture, the Corporation, and clients are not being adhered to.

22.6 The Corporation is continuing to address the weaknesses we noted last year in arrears reporting, collection procedures, and billings.

22.7 Problems were noted regarding the lease rates being charged on expired leases.

22.8 Standard reconciliation procedures are not performed for mortgages.

22.9 Procedures related to insurance contracts should be strengthened.

22.10 The administrative process for collecting and remitting the Goods and Services Tax has not been completed.

AUDIT SCOPE

22.11 We performed a financial audit for the year ended March 31, 1991 in accordance with Section 13 of the Audit Act.

PRINCIPAL FINDINGS

Management Agreements

22.12 Last year we reported that management agreements used to monitor high risk clients were not being adhered to. This year we noted improvements in the reporting of receivables, however, the required farm visits by Department of Agriculture staff are not being made and submission of annual financial statements is not enforced. We reviewed compliance with 14 agreements and found that 5 did not provide financial statements and 7 had no farm visits during the year.

Collections, Arrears Reporting, and Billings

22.13 Management indicated that the Corporation's ability to address some weaknesses noted last year was hindered by a lack of human resources, which is expected to be overcome through more computerization in 1991-92. The weaknesses included: the collection policies of the Corporation not being followed; inadequate reporting of arrears; and insufficient control over lease billings.

22.14 The Corporation approved new policies on collections and capitalization of arrears in April 1991. Judgments, as approved by the Board, will be used to minimize the Corporation's future losses due to terminated leases and repossessions. Capitalization of lease arrears, which was not previously permitted under the policies of the Corporation, may be approved under stringent guidelines and will be closely monitored.

22.15 We noted improvements in arrears reporting for specific high risk clients and problem accounts. However, the system does not produce an accurate list of all lease arrears. Arrears pertaining to mortgages and agreements of sale are not reported. Conversion to a computerized system in 1991-92 is expected to provide improved reporting of all arrears on a regular basis.

22.16 Weaknesses noted last year still exist in the system of preparing billings. Controls are inadequate to ensure all billings are made when due. Conversion to a computerized billing system in 1991-92 is expected to correct this problem.

Expired Leases

22.17 The Corporation has been renewing leases at the current lease rate since Executive Council placed a moratorium, effective November 9, 1990, on the practice of renewing leases at the lower of the original lease rate or the current rate. The original lease rate is derived from the average borrowing rates of the Corporation and was lower than the current lease rate at March 31, 1991.

22.18 There are a number of clients with expired leases. Until March 31, 1991, the Corporation's policy was not to renew these leases until outstanding arrears were paid. The Corporation has, however, continued to bill clients operating under expired leases at their original lease rate. At March 31, 1991 there were in excess of 50 expired leases totalling $3.8 million. The Corporation is now billing expired leases at the current lease rate.

Mortgages

22.19 Individual mortgage balances were not reconciled during the year to the control total of all mortgages. This procedure is necessary to ensure that posting errors to client mortgage cards are detected.

Insurance

22.20 There was no documented approval, by the crop insurance supervisor, of field inspectors' reports. These reports of the final acreage planted are used to calculate insurance premiums. In addition, the Contracts of Insurance mailed to the farmers were not dated.

GST Administration

22.21 The due date for remittance of Goods and Services Tax (GST) was not determined by the Corporation at the time of our audit. GST amounts charged to lease clients are estimated at $200,000 annually and should be remitted to the federal government when due.

22.22 The 1990-91 lease receivable system does not maintain the information required to ensure the Corporation receives proper credit for GST on accounts written off. The Corporation is planning to convert to a new lease receivable system during 1991-92. It is important that any information required for administering the GST be included.

RECOMMENDATIONS

22.23 The Corporation should ensure that financial statements are obtained and farm visits are made as required by the management agreements.

22.24 The Corporation should bill clients operating under expired leases at the current lease rate.

22.25 The mortgage subledger should be balanced to the control account on a regular basis.

22.26 The crop insurance supervisor's review of field inspectors' final acreage reports should be documented and Contracts of Insurance should be dated.

22.27 The Corporation should determine when GST remittances are to be made and remit the correct amount. The new lease receivable system should provide the necessary information to administer the GST.

CORPORATION RESPONSE

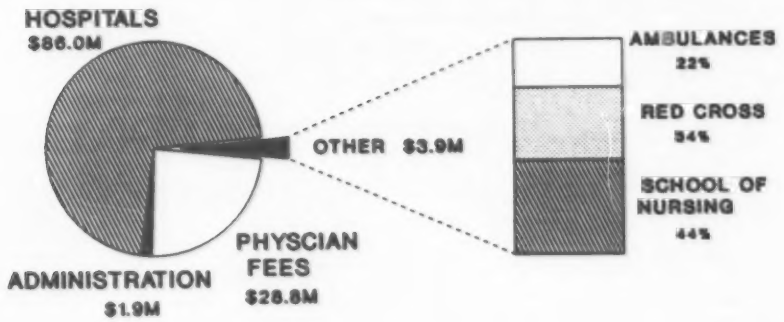
22.28 The Corporation agrees with our recommendations and plans to implement them.

23. HOSPITAL AND HEALTH SERVICES COMMISSION

BACKGROUND

23.1 The Hospital and Health Services Commission is responsible for administration of the Hospital and Diagnostic Services Insurance Act and the Health Services Payment Act. Expenditures of the Commission amounted to $120.6 million in the fiscal year 1990-91. This represents an expenditure of approximately $925 per resident of Prince Edward Island. **Exhibit 23.1** shows a breakdown of the Commission's expenditures.

EXHIBIT 23.1
COMMISSION EXPENDITURES



AUDIT SCOPE

23.2 A financial statement audit was conducted in accordance with Section 13 of the Audit Act.

PRINCIPAL FINDINGS

Recommendations from the 1989-90 Financial Audit

23.3 In its report to the Legislature last year, the Public Accounts Committee expressed the need for the Commission to further streamline and tighten payment and verification procedures and systems.

23.4 We followed up the Committee's concerns and our audit disclosed that the Commission has taken the following action:

- The computerized medical claims payment system has been modified to maintain a complete management and audit trail.

- Several control procedures have been implemented to prevent overpayment of claims.
- Master file changes are now printed and reviewed to ensure accuracy.
- Controls over the issuance of cheques have been improved.
- Journal entry documents now contain sufficient explanations and are reviewed and approved by supervisory personnel.
- All changes to personnel transactions are reviewed and approved by management before they are processed.

Accounting Records and System Controls

23.5 Our audit this year identified weaknesses in accounting and control. We expressed concerns to the Commission on the timeliness of preparation of financial statements; the frequency of errors in the accounting records; the authorization of payments; and balancing of the payroll system. We recommended that the Commission develop monthly accounting routines to improve the accuracy of accounts, strengthen controls over authorization of payments, and perform regular balancing of the payroll system.

MANAGEMENT RESPONSE

23.6 Management has indicated that action will be taken to address our concerns.

FOLLOW-UP OF PREVIOUS RECOMMENDATIONS

24. INTRODUCTION

24.1 Many of our audits include recommendations for improvement. We recognize other alternative courses of action can be taken. However, it is necessary to follow up on our recommendations to ensure that the underlying problems are receiving the attention they deserve. How quickly recommendations are acted on depends upon many factors. Sometimes action is postponed for valid reasons. In all cases, we intend to follow through until the problems identified have been dealt with in a satisfactory manner.

24.2 This section is a summary of past recommendations and the action which has been taken by those responsible for implementation. We were requested by the Public Accounts Committee to follow up specifically our observations and recommendations on Loans and Guarantees and Highway Construction. Our recommendations to Treasury Board deal with policy or government-wide issues of importance, and we have listed most of them individually. Our audit reports to departments and agencies usually contain a large number of recommendations. These have been dealt with in summary fashion.

24.3 We perform audits of the Public Accounts and a number of Crown agencies annually. For these audits, any follow-up of previous recommendations is included with our other comments in the Financial Audit section of this Report.

25. LOANS AND GUARANTEES FOLLOW-UP

INTRODUCTION

25.1 Last year a number of observations and recommendations were made on the lending activities of government in our report to the Legislative Assembly.

25.2 The report was the subject of discussion at several meetings of the Public Accounts Committee. After considering the Auditor General's Report and the input received at these meetings, the Public Accounts Committee presented a report with recommendations which was adopted by the Legislative Assembly.

25.3 The Committee requested the Auditor General to follow up on the 1991 report as well as the recommendations made by the Public Accounts Committee.

25.4 At March 31, 1991 provincial government loans and long-term leases amounted to over $109 million and loan guarantees amounted to almost $24 million. This is a decrease from last year, when we reported loans and long-term leases outstanding of $119 million and loan guarantees of $27 million.

GENERAL ASSESSMENT

25.5 Since our report was issued, legislation was approved to establish three separate agencies; a lending agency, a business development agency, and a marketing agency.

25.6 The establishment of separate agencies for lending and business development will provide a clearer distinction between the two activities and should provide an improved means for establishing accountability for funds used. However, adjusting the organizational structure will not in itself provide assurance that principles of good management will exist in the lending activities of government.

25.7 The status of many of our recommendations hinges to a large extent on whether the policies and procedures of the new lending agency adequately address the problems identified in our report. Nevertheless, we did attempt to follow up on our recommendations by soliciting comments from the organizations we examined last year as well as Executive Council. We intend to review the controls over lending activities when the new agency becomes operational.

CURRENT STATUS

Approvals

25.8 We reported that improvements are required in the approval process and a more rigorous approach is needed in processing applications. We made several recommendations aimed at improving the approval process and thereby reducing the risk on lending activities.

25.9 The recommendations were primarily aimed at the PEI Development Agency where the bulk of our audit work was performed. Officials at the Development Agency have updated and expanded their finance policy guidelines in order to address these concerns.

25.10 In addition we recommended that Executive Council be informed on a regular basis on the lending activities of Crown Corporations and that this summary information be clearly defined. We were informed by the Clerk and Secretary of Executive Council that Treasury Board in conjunction with the new Lending Agency has been directed to determine how best to meet this recommendation.

Monitoring

25.11 Effective monitoring can assist government in recognizing changes to the conditions which existed at the time of loan approval and can reveal some of the early signs of financial difficulty. We reported that the monitoring of outstanding debt was receiving insufficient attention.

25.12 In response to our recommendations in this area, the PEI Development Agency has developed and implemented a monitoring policy.

Reporting

25.13 Timely and accurate reporting of relevant information to management is essential for the effective management of lending activities. We recommended that all delinquent accounts be reported to the Board of Directors monthly and that refinanced loans be clearly identified on all loan status and arrears reports.

25.14 Development Agency officials have taken steps to indicate refinanced loans when they are reported on loan status and arrears reports. However, they feel that current reporting of delinquent accounts to the Board of Directors, on an as required basis, is sufficient.

Interest

25.15 We made a number of recommendations in our report concerning the interest rates charged by the various agencies of government as well as the recording of interest and conversion of interest bearing debt into non-interest bearing equity.

25.16 The matter was referred by Executive Council to Treasury Board. It is intended that consistency in the methods of establishing lending rates would be directed from there.

Security

25.17 In our report to the Legislature we recommended that security required by the letter of offer be in place prior to disbursement of funds and that security for loan guarantees be verified and enforceable.

25.18 The PEI Development Agency has assured us of their intention to be more stringent in this area. They have developed a new disbursement policy and checklist and a project analysis policy.

Collections

25.19 Our report last year emphasized the need for improvements in the collection activity. We noted that lending agencies had recorded $35 million in bad debts in the last ten years. Bad debt expense for 1991 amounted to $12 million. We recommended that collection policies be developed for each lending agency and that collection activity be documented.

25.20 PEI Development Agency established a collection policy which addresses the concerns raised in our report.

Loan Write-Offs

25.21 Last year we reported that loan write-offs over the ten year period ending March 31, 1990 exceeded $26 million. We recommended that a consistent policy be established for the approval of loan write-offs.

25.22 We were advised that Executive Council has requested Treasury Board to draft a policy to deal with this issue.

Guarantees

25.23 In our annual report we discussed the government's use of loan guarantees as a financing mechanism and we recommended that direction be provided to lending agencies on the charging of administration fees for loan guarantees.

25.24 The matter was referred to Treasury Board for appropriate action.

CONCLUSION

25.25 New policies and changes to existing policies where appropriate are an important first step in addressing the concerns raised in our report on Loans and Guarantees. We will continue to do audit work on this important subject and provide the results to the Legislative Assembly.

26. HIGHWAY CONSTRUCTION FOLLOW-UP

INTRODUCTION

26.1 In the 1990 Report of the Auditor General to the Legislative Assembly, we reported the results of our audit of Highway Construction. At the request of the Public Accounts Committee, the report was followed up in our 1991 report. This year we will provide information on the status of the recommendations which remain outstanding.

26.2 The Department continues to work with the road building contractors to implement these recommendations. It is essential that this relationship continue if the quality of highway construction is to improve.

CURRENT STATUS

Quality Control

1990 Recommendation

26.3 Department engineers should ensure that highway construction contract specifications are met before final payments are made.

Comments

26.4 The Department regularly communicates with roadbuilding contractors about general problems as well as individual highway construction projects. The Department indicated that communication between the project engineer and the contractor's foreman on highway projects remains at a satisfactory level and working relations are good.

26.5 Senior Department officials meet with the executive of the PEI Roadbuilders and other contractors to discuss mutual problems, solutions, and exchange information. The Department indicated that there are problems regarding communication and cooperation on technical matters and specifications. The Department has tried to draw back from direct involvement in the contractors' operations and we are advised the result has been somewhat negative. There is still a tendency for the contractor to do as he is accustomed to rather than meet the specifications. For example, construction joints were not as smooth as the previous year and contractors continued to experience difficulties in meeting the compaction specifications. The Department intends to address the problems related to the achievement of contract specifications by continuing its meetings with contractors and pressing forward on the necessary improvements.

26.6 In its efforts to achieve compliance with specifications, Department lab staff and project engineers have met with all paving contractors on an individual basis. The purpose of those meetings was to go over with the contractors the past year's test results and the quality of the work that has been carried out. Due to the problems with the compaction of asphalt mix, the Department has asked the University of New Brunswick to look at the Department's compaction data and to make recommendations for new specification requirements if necessary.

26.7 In addition, a specification was introduced for improved highway smoothness in selected contracts.

Pavement Management System

1990 Recommendation

26.8 The final phase of the Pavement Management System, which will prioritize reconstruction on a provincial basis should be implemented as soon as possible.

Comment

26.9 Last year the Department reported they had experienced considerable difficulty in implementing the final element of the Pavement Management System and the module was scheduled for testing in January 1991. This year the Department confirmed that all essential elements of the system were subjected to rigorous testing and evaluation in the last 12 months. As a result, the system is undergoing some revision and final acceptance has been delayed. The Department expects these revisions will be completed satisfactorily and final acceptance of the system will be achieved this year.

Field Staff

1990 Recommendation

26.10 The hiring, training, and supervision of field staff should be improved to ensure adequate inspections are performed and non-compliance with specifications is reported.

Comment

26.11 The Department does not always have trained and qualified representatives on highway construction projects. This is due to government's reluctance to create new positions and the continuing practice of hiring untrained people.

Tendering

1990 Recommendation

26.12 The Department should develop and document a formal policy setting out rules and procedures to govern the awarding of highway construction contracts.

Comment

26.13 The department is finalizing a policy for the awarding of highway construction contracts. We will review the policy and provide an update on any changes in our next report.

Contract Changes

1990 Recommendation

26.14 The Department should ensure that contract overruns and changes are documented and approved in compliance with Department procedures.

Comment

26.15 The Department is developing a policy to outline when change orders are to be written and what areas must be covered by a change order. We will follow up on this policy.

Project Costing

1990 Recommendation

26.16 The Department should ensure that financial reports are prepared accurately and are properly reviewed.

Comment

26.17 The Department is attempting to integrate the financial information system with the construction management system. We will follow up this intended course of action.

Holdbacks

1990 Recommendation

26.18 The Department guidelines for the payment of holdbacks should be followed.

Comment

26.19 The Department is continuing to review this subject.

Work Schedules

1990 Recommendation

26.20 The system for scheduling work and charging contractors for delays should be reviewed.

Comment

26.21 Schedules were reintroduced and completion dates were included in all public tenders. Schedules were required prior to awarding of the tender.

CONCLUSION

26.22 In general, the Department is attempting to deal with our recommendations and progress is being made toward correcting some of the deficiencies. However, there remains a number of issues which need to be addressed. Not the least of these is a process to ensure the Province is receiving good value for its highway construction dollar by requiring contractors to meet the specified contract requirements.

27. RECOMMENDATIONS TO TREASURY BOARD

27.1 Under the Financial Administration Act, Treasury Board has a number of responsibilities including preparation of the Budget Estimates, administration of the public service, and financial management.

27.2 Each year during the course of our audits, we encounter matters affecting these responsibilities that require decisions and direction from Treasury Board. The purpose of this section is to follow up on recommendations until they have been dealt with satisfactorily. Following are the outstanding recommendations.

Recommendations	Comments
Suitable accountability requirements for transfer payment recipients. (Section 4, 1990)	Treasury Board staff advised that the Cabinet Committee on Government Reform is currently conducting indepth reviews of the educational and health care systems which are the major target of these transfer payments. The reports are expected to address accountability.
Program Performance Reviews (Section 5, 1990)	As reported last year, the Cabinet Committee on Government Reform intends to examine programs with a view to improving efficiency and productivity, ensuring the relevancy of programs, and eliminating any duplications.
Telephone costs (Section 19, 1990)	The Department of Transportation and Public Works is in the process of developing a telecommunications management system.
A policy on fraud awareness and reporting. (Section 2, 31 March 1988)	The policy was approved in June 1991 and now forms part of the Treasury Board Policy and Procedures Manual.
A code of conduct for public servants. (Section 3, 31 March 1988)	The draft policy and guidelines are being considered by deputy ministers and following that, the policy will be further discussed with the Union of Public Sector Employees.
Requirements, timing, and content of departmental annual reports. (Section 2, 31 March 1987)	A draft policy was prepared in 1990 and no further action has resulted.

Recommendations	Comments
Management and control of inventories. (Section 5, 31 March 1987)	While work on an overall inventory policy has not yet been completed, the Department of Transportation and Public Works, the Department of Health and Social Services, and the Department of Education, have taken steps to improve inventory management.
Management and control of professional services. (Section 9, 31 March 1987)	A revised policy was approved by Treasury Board in August 1991, and now forms part of the Treasury Board Policy and Procedures Manual.

28. RECOMMENDATIONS TO DEPARTMENTS AND AGENCIES

28.1 This section provides an update on the significant recommendations made to departments and agencies in previous reports. It includes only those audits which are not done on a regular basis.

28.2 In each case, we have contacted the appropriate department or agency and obtained information on the status of our recommendations. We limited our work to a review of this information to ensure it addresses the issues raised. In most cases, the specifics of implementation will be verified during our next audit.

MEDICAL SERVICES - 1991 SECTION 7

28.3 We have been advised by the Hospital and Health Services Commission that the following actions have been taken on our recommendations:

- The Commission has not formally costed, analyzed, and ranked the various actions required to address the many issues brought to their attention in various studies. In our view, such a process is necessary in order to make the most effective use of these studies.
- The Commission has taken steps to improve the integrity of its resident registration file including the purging of obsolete and duplicate records.
- The Commission is introducing a billing system for radiologists that will enable the Commission to check for patient eligibility.
- In response to our concerns over claim assessment procedures, the Commission has established a committee to review all assessment rules and to prepare a procedure manual for staff assessors. In addition, a system now exists to report on the results of assessment procedures.
- The Commission has made plans to improve its claim confirmation system including improvements to the sample selection methods, confirmation procedures, and reporting requirements. The Commission has not yet implemented these plans.
- The Commission advised that it has forwarded our recommendations dealing with physician recruitment to the Physician Resource Planning Committee. This committee operates as a separate body from the Commission.
- With respect to our recommendations dealing with management information needs, the Commission advises that the Assessment Rule Review Committee is evaluating management's information requirements and Computer Services Division is assisting the Commission to find solutions. These actions are expected to address our concerns regarding information on physician profiles and patient demand.
- The Atlantic Provinces College of Physicians and Surgeons is in the initial stages of the design and implementation of a peer review process.

- The Commission has given consideration to the use of a public awareness campaign to encourage the effective use of the health care system and a final decision has not been made.
- The Commission has improved its password controls for access to health information.

28.4 We will continue to monitor the status of our recommendations.

PROPERTIES AND SURVEYS - 1991 SECTION 8

28.5 We have been advised by the Department of Transportation and Public Works that the following actions have been taken on our recommendations:

- Properties and Surveys Section has not yet received any direction or policy from government with respect to appropriate levels of crown land inventory to accumulate and maintain. The Section also has not taken steps to implement a system for management of the existing crown land portfolio.
- Action has been taken on a number of recommendations including the improvement in controls over travel expenditures, the creation of a management information system, the establishment of employee performance targets, and the introduction of procedures to ensure all land acquisition procedures are completed before any government operations commence on the land.

28.6 We will continue to monitor action taken on our recommendations.

COMPUTER SECURITY REVIEW - 1991, SECTION 9

28.7 We have been advised by the Department of Finance that the following actions have been taken on our recommendations:

- A disaster recovery plan is in its final stages of completion and Computer Services Division has initiated a process to review the adequacy of its off-site storage procedures.
- Computer Services Division has taken steps to acquire an uninterrupted power system that will ensure continued operations during power failures. The Division is awaiting the necessary approvals prior to making the purchase.
- Steps have been taken to reduce the risks of damage and disruption due to fire or flooding. These steps include the installation of water sensors, the acquisition of plastic covers for equipment, and the full and regular testing of the halon fire suppression system.
- Control over physical access to Computer Services Division after hours has been improved by a combination of electronic card access and the requirement to show photo IDs to commissionaires.
- The Division has examined opportunities to enhance controls over computer access by expanding its password policy and reviewing all computer accounts and the privileges granted to various users. Opportunities for programmers to access production files still exist but will be eliminated once all applications are converted to the new mainframe computer.

- Tape library controls have been improved to include a reconciliation of the tape inventory. In addition the tape management policies are currently under review.

28.8 Computer Services Division has taken steps to address all the issues raised and we are satisfied with the progress on our recommendations.

DEPARTMENT OF AGRICULTURE GRANTS - 1991 SECTION 10

28.9 We have been advised by the Department of Agriculture that action on our recommendations has been limited to the creation of new application forms for certain grant programs. The Department believes some of its assistance programs may be affected by the government reform initiative and government restructuring. Consequently, no further action has been taken on our recommendations.

28.10 We will continue to monitor action taken on our recommendations.

MICROCOMPUTERS - MAINTENANCE AND REPAIRS - 1991 SECTION 11

28.11 We have been advised by the Department of Finance that the following actions have been taken on our recommendations:

- Computer Services Division has taken steps to clarify the duties and responsibilities of the various parties with respect to microcomputer maintenance. These steps include meetings with department officials and the preparation of a buyers guide for microcomputer maintenance.
- The Division has begun the process of evaluating alternative methods of acquiring microcomputer maintenance services.

28.12 We are satisfied with the action taken on our recommendations.

BASIN HEAD FISHERIES MUSEUM - 1991 SECTION 19

28.13 We have been advised by the Department of Community and Cultural Affairs that the following actions have been taken on our recommendations:

- Vacancies on the Board of Directors have been filled in accordance with the Museum's by-laws. The Museum has also taken steps to ensure Board minutes are kept and are appropriately certified by the secretary and the president.
- A formal funding agreement has been signed between Basin Head and the PEI Museum and Heritage Foundation. The agreement contains provisions requiring an annual audit of Basin Head's financial statements. Basin Head is making the necessary improvements to its bookkeeping system to enable an audit to take place.

28.14 We are satisfied with the action taken on our recommendations.

POTATO DISEASE CONTROL - 1990 SECTION 10

28.15 We have been advised by the Department of Agriculture that the following actions have been taken on our recommendations:

- The Department has entered into an agreement with the Department of Transportation and Public Works which ensures the scalehouses at Wood Islands and Borden are operating and are capable of providing inspection services during all hours of ferry operation.
- The Department has taken steps to ensure that it can rely upon Agriculture Canada staff to perform crop inspections required under the Plant Health Act.

28.16 We are satisfied that the Department has taken action on our recommendations.

PROVINCIAL LIBRARY - 1990 SECTION 13

28.17 We have been advised by the Department of Community and Cultural Affairs that the following actions have been taken on our recommendations:

- Elements of operational planning have begun and library management will develop an overall operating plan for the 1992-93 year.
- The library has developed a comprehensive performance appraisal system which will allow the library to evaluate its success in achieving stated objectives. This system will also enable management to evaluate the results achieved by each component unit of the Provincial Library.
- The library has reviewed the cataloguing process and has reduced the backlog that existed.
- Discussions have commenced with the Confederation Centre of the Arts to conclude a rental agreement for the library premises.

28.18 We are satisfied with the action taken on our recommendations.

PEI HOUSING CORPORATION 1987-88, SECTION 13

28.19 We have been advised by the Corporation that the following actions have been taken on our recommendations:

- A new computer system is nearing completion and the Corporation's Board has recently approved a program operational plan and a Social Housing Program Maintenance Procedures Manual. The Corporation feels these items will address our recommendations concerning the need for operational plans; the need for objectives and performance goals; the need to analyze organizational structure and staff requirements; the need for maintenance procedures; and the need for improved reporting procedures.
- Land acquisition procedures have been improved and appropriate documentation is now maintained.
- Management has concluded that action on developing a strategic plan should be deferred until the Cabinet Committee on Government Reform has concluded its deliberations pertaining to the Corporation.

28.20 We are satisfied with the action taken on our recommendations.

DRUG COST ASSISTANCE PROGRAM 1987-88 SECTION 25

28.21 We have been advised by the Department of Health and Social Services that there is one remaining recommendation that has not been completely addressed. A direct confirmation audit system has been developed by the Department but has not been implemented.

28.22 We will follow up further on this recommendation during our next audit.

OFFICE OF THE AUDITOR GENERAL

29. OFFICE OF THE AUDITOR GENERAL

MANDATE

29.1 The Auditor General is a servant of the Legislative Assembly, independent of government and responsible for the audit of government administration within the provisions of the Audit Act.

29.2 The Auditor General's function is a vital part of the legislative framework that exists to hold the administration accountable for their stewardship of public funds.

RESPONSIBILITIES

29.3 The responsibilities of the Auditor General are set out in the Audit Act. The primary responsibility is the audit of the Public Accounts of the Province. This includes an objective examination of the accounts and records pertaining to the receipt and disbursement of public funds. In addition, the Auditor General is responsible for the audit of certain Crown corporations under statute as well as those not subject to financial audit by other auditors.

29.4 The Auditor General is also responsible to conduct any audit or examination he considers necessary to determine whether any agency of government is achieving its purpose and is doing so economically and efficiently. The number of audits is limited by staff resources available, but on a cyclical basis, significant audit coverage can be achieved in most departments and agencies.

29.5 We are always striving to make our audits more effective and efficient, while maintaining our professional standards of examination and reporting. With the mandate provided in the Audit Act, there is no limit to the amount of work this office could be doing. It is not possible, or financially practical to have the Auditor General attempt to audit all of government each year. Therefore, it is my intention to perform sufficient audit work to adequately cover government programs on a cyclical basis in addition to my annual audits of the Public Accounts and certain Crown Corporations.

AUDIT PROCESS

29.6 Audits of the Province's Public Accounts and other financial statement audits are performed in accordance with the standards of the Canadian Institute of Chartered Accountants. These standards relate to the professional qualifications of auditors, minimum examination requirements, and reporting responsibilities.

29.7 The handbook which contains the Recommendations of the Accounting Standards Committee and the Auditing Standards Committee of the CICA, is the principal source of generally accepted accounting principles and generally accepted auditing standards in Canada.

29.8 In addition, we are guided by the statements issued by the Public Sector Accounting and Auditing Committee of the CICA. These statements contain accounting and auditing recommendations applicable to government.

29.9 Audit work on government departments and programs pertaining to the economic and efficient achievement of objectives is performed based on state of the art methodologies evolving primarily from the Canadian Comprehensive Auditing Foundation and other legislative audit offices.

OFFICE ORGANIZATION AND ADMINISTRATION

29.10 The office consists of the Auditor General, 3 Audit Directors, 15 audit positions, 1 administrative position, and 1 secretarial position. Two of these positions are filled by university graduates who are studying and articling to attain their chartered accountant designation. Three students successfully completed the Uniform Final Examinations this year and received their chartered accountant designation.

29.11 Under the Audit Act, the Legislative Audit Committee, a standing committee of the Legislative Assembly is responsible for the administration of the office. The Committee consists of the Speaker, who is Chairman, the Leader of the Opposition, and the Minister of Finance.

29.12 The main functions of the Committee are clearly defined in the Act and ensure the office's operations and resources are determined independent from government. The Committee continues to work effectively in this role and is supportive of the office.

29.13 The annual budget for the office is submitted to the Legislative Audit Committee for review. The Committee submits their recommended budget for the approval of the Lieutenant Governor-in-Council. It is then laid before the Legislative Assembly with the other estimates for final approval.

29.14 The office is subject to a practice inspection on a periodic basis by the Institute of Chartered Accountants of Prince Edward Island, which is responsible for the regulation of public accounting. The inspection process is designed to protect the public interest by ensuring this office meets the standards required by the profession.

29.15 The strategic overview of the office is reviewed and updated annually. It outlines not only strategic issues, but also a three-year plan, and a detailed annual operational work plan.

CODE OF CONDUCT

29.16 This year the office developed a Code of Conduct for all staff. The Code is intended to be a general statement of philosophy, principles, and rules regarding conduct within the office. Employees have a duty to conduct themselves in a professional manner and to demonstrate high standards of behaviour, competence, and integrity. The Code explains these expectations and elaborates on the office's responsibilities to the Legislative Assembly, the public, and the entities we audit. In addition, specific guidance is provided on the disclosure requirements and steps to be taken to avoid conflict of interest situations.

PROFESSIONAL ACTIVITIES

29.17 The office has been a member and supporter of the Canadian Comprehensive Auditing Foundation since it was formed in 1980. The Foundation was established to strengthen accountability, management, and auditing in the public sector. It performs research and provides professional development courses, publications, and conferences to further the development of comprehensive audit methodology. I serve as a member on the Board of Governors of the Foundation.

29.18 The office also supports the work of the Public Sector Accounting and Auditing Committee. It was established by the Canadian Institute of Chartered Accountants and its overall objective is to improve and harmonize financial reporting, accounting policies, and auditing practices in the public sector. The Committee carries out research and issues recommendations on public sector accounting and auditing. Eleven Public Sector Accounting and Auditing Statements and two Public Sector Auditing Guidelines have been issued.

29.19 The office participates in the annual Conference of Legislative Auditors which includes provincial legislative auditors and the Auditor General of Canada.

29.20 Members of the office participate in various meetings and serve on several committees jointly with representatives from other legislative audit offices.

29.21 An important professional relationship is also maintained with the Institute of Chartered Accountants of PEI, and the Canadian Institute of Chartered Accountants. Membership on various provincial and national committees helps ensure the office provides input and keeps informed of important developments in the accounting profession.

SCHEDULES

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1990/91	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	EXPENDITURES 1990/91	UNDER EXPENDITURES	EXPENDITURES 1989/90
AGRICULTURE	$ 21,535,000	$ 125,000	$ 86,800	$ 21,746,800	$ 20,397,219	$ 1,349,581	$ 27,524,211
PEI AGRICULTURAL DEVELOPMENT CORP	1,866,800	618,400	7,915	2,493,115	2,417,283	75,832	1,384,261
PEI GRAIN ELEVATORS CORPORATION	208,700	79,300	1,200	289,200	289,200	-	574,144
COMMUNITY & CULTURAL AFFAIRS	13,183,100	1,927,200	83,400	15,193,700	15,045,572	148,128	13,153,919
LAND USE COMMISSION	194,600	-	1,000	195,600	177,499	18,101	353,705
LABOUR	2,175,100	118,000	18,300	2,311,400	2,230,434	80,966	1,909,723
GENERAL EDUCATION	8,631,500	78,000	27,800	8,737,300	6,776,260	1,961,040	8,155,655
ELEMENTARY AND SECONDARY EDUCATION	104,202,900	450,000	-	104,652,900	104,624,473	28,427	99,531,908
POST SECONDARY EDUCATION	36,581,100	-	-	36,581,100	36,066,220	514,880	33,910,128
VOCATIONAL PROGRAMMING	4,181,200	-	-	4,181,200	4,181,200	-	4,068,500
THE ENVIRONMENT	7,593,600	114,000	34,600	7,742,200	7,593,243	148,957	7,576,566
TOURISM AND PARKS	10,071,000	20,800	45,600	10,137,400	9,608,122	529,278	9,239,104
EXECUTIVE COUNCIL	2,109,500	-	11,100	2,120,600	2,008,772	111,828	1,914,605
FINANCE	9,066,600	-	91,700	9,158,300	8,953,086	205,214	8,712,574
EMPLOYEE BENEFITS	8,596,000	444,500	1,800	9,042,300	8,976,017	66,283	8,310,499

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1990/91	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	EXPENDITURES 1990/91	UNDER EXPENDITURES	EXPENDITURES 1989/90
PEI LENDING AUTHORITY	$ 1,327,600	$ 282,911	$ 9,200	$ 1,619,711	$ 1,617,908	$ 1,803	$ 965,267
INDUSTRY	13,146,300	1,827,400	19,200	14,992,900	13,516,893	1,476,007	13,164,746
PEI DEVELOPMENT AGENCY	12,319,900	11,515,200	17,052	23,852,152	23,852,102	50	17,407,498
GEORGETOWN SHIPYARD	-	500,900	-	500,900	500,850	50	-
HEALTH & SOCIAL SERVICES	101,858,500	5,868,400	820,000	108,546,900	108,272,176	274,724	94,678,042
ADDICTION SERVICES	3,762,400	18,600	193,000	3,974,000	3,895,174	78,826	3,600,741
HOSPITAL AND HEALTH SERVICES COMMISSION	119,220,700	126,400	1,637,000	120,984,100	120,103,194	880,906	114,246,664
ENERGY AND FORESTRY	9,164,200	-	47,700	9,211,900	8,241,345	970.555	8,297,819
PEI ENERGY CORPORATION	1,326,900	4,972,300	2,200	6,301,400	5,846,175	455,225	1,274,707
JUSTICE	20,200,300	205,600	164,800	20,570,700	20,190,535	380,165	18,088,408
PEI HOUSING CORPORATION	2,963,200	28,800	22,320	3,014,320	2,480,037	534,283	2,381,600
FISHERIES AND AQUACULTURE	3,177,500	100,000	15,000	3,292,500	2,754,124	538,376	2,453,616
LEGISLATIVE ASSEMBLY	2,577,500	-	8,000	2,585,500	2,416,819	168,681	2,916,531
TRANSPORTATION & PUBLIC WORKS	50,165,700	616,100	435,200	51,217,000	49,732,355	1,484,645	50,821,322
PEI CROWN BUILDING CORPORATION	62,100	174,700	-	236,800	236,790	10	247,063

ORDINARY EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1990/91	SPECIAL WARRANTS	TRANSFERS	TOTAL BUDGET	EXPENDITURES 1990/91	UNDER EXPENDITURES	EXPENDITURES 1989/90
DEBT CHARGES	$ 93,439,900	$ 1,367,600	$ -	$ 94,807,500	$ 94,807,426	$ 74	$ 86,889,252
AUDITOR GENERAL	1,036,500	-	9,000	1,045,500	958,766	86,734	850,182
CIVIL SERVICE COMMISSION	1,936,000	-	20,600	1,956,600	1,652,679	303,921	1,441,780
GENERAL GOVERNMENT	9,023,000	310,100	(3,831,187)	5,501,913	4,379,586	1,122,327	5,654,005
TREASURY BOARD	821,600	-	7,500	829,100	761,104	67,996	900,131
COUNCIL OF MARITIME PREMIERS	952,500	-	-	952,500	629,960	322,540	718,600
TOTALS	$678,679,000	$31,890,211	$ 7,800*	$710,577,011	$696,190,598	$14,386,413	$653,317,476

*This amount is the net effect of transfers and a classification difference between Ordinary and Capital Appropriations.

CAPITAL EXPENDITURES
APPROPRIATIONS

	ORIGINAL APPROPRIATION ACT 1990/91	TRANSFERS	TOTAL BUDGET	EXPENDITURES 1990/91	UNDER EXPENDITURES	EXPENDITURES 1989/90
TRANSPORTATION AND PUBLIC WORKS	$46,357,900	($7,800)	$46,350,100	$41,399,584	$4,950,516	$37,644,698
ENERGY AND FORESTRY	92,000	-	92,000	78,992	13,008	-
TOURISM AND PARKS	-	-	-	-	-	34,993
TOTALS	$46,449,900	($7,800)*	$46,442,100	$41,478,576	$4,963,524	$37,679,691

*This amount is the net effect of transfers and a classification difference between Ordinary and Capital Appropritations.

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
	DEPARTMENT OF AGRICULTURE			
324/90	PRODUCTION SERVICES			$ 125,000
	Engineering & Land Resources			
	Manure Management & Soil Drainage (Offset 100% by revenue from Agriculture Canada through the cost-shared portion of the ERDA Co-operative Agreement)			
	TOTAL			**$ 125,000**
	P.E.I. AGRICULTURAL DEVELOPMENT CORPORATION			
146/91	CROP INSURANCE			$ 72,400
	Administration (Premiums)			
146/91	FARM FINANCE			546,000
	Net Interest Expense			
	TOTAL			**$ 618,400**
	P.E.I. GRAIN ELEVATORS CORPORATION			
457/91	Debt - Operating Deficit			$ 79,300
	TOTAL			**$ 79,300**
	DEPARTMENT OF COMMUNITY AND CULTURAL AFFAIRS			
572/90	ADMINISTRATION			$ 299,200
	Administration - Reorganization	$13,100		
	Materials & Supplies - Reorganization	400	$ 13,500	
	(Offset 100% by sequestered funds in Department of Education)			
147/91	Trade Centre		285,700	
	CULTURAL AFFAIRS			
325/90	Cultural Program Development			24,000
	Project Grants re Le Village Project (Offset 100% by federal revenue under terms of Canada/P.E.I. Agreement on Promotion of Official Languages)			

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	RURAL DEVELOPMENT		
609/90	Administration		24,800
	Grant - Evangeline Medical Services (Offset 100% by federal revenue under terms of General Agreement on Official Languages)		
572/90	PROVINCIAL LIBRARIES		1,579,200
	Reorganization - Responsibility for libraries transferred from Department Education (Offset 100% by sequestered funds in Department of Education)		
	TOTAL		**$ 1,927,200**
	DEPARTMENT OF LABOUR		
152/91	HUMAN RIGHTS COMMISSION		$ 88,300
	Professional Services		
152/91	LABOUR RELATIONS BOARD		18,100
	Professional Services		
107/91	WOMEN'S DIVISION		11,600
	Salaries	$10,100	
	Travel and Training	1,500	
	TOTAL		**$ 118,000**
	P.E.I. HOUSING CORPORATION		
571/90	SENIOR CITIZENS HOUSING		$ 28,800
	Salaries (Offset 100% by funds sequestered in P.E.I. Energy Corporation)		
	TOTAL		**$ 28,800**

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS	
	DEPARTMENT OF EDUCATION	
446/90	GENERAL EDUCATION-PROVINCIAL LIBRARIES HEADQUARTERS	$ 78,000
	Federal portion of eligible costs of project for Community Library Services (Offset 100% by federal revenue under the terms of the Canada/P.E.I. Agreement on Promotion of Official Languages)	
	TOTAL	**$ 78,000**
	DEPARTMENT OF EDUCATION - SCHOOL UNITS	
150/91	ELEMENTARY AND SECONDARY EDUCATION GRANTS TO REGIONAL SCHOOL UNITS	$ 450,000
	Debt - Interest Costs on funding for School Construction Projects	
	TOTAL	**$ 450,000**
	DEPARTMENT OF THE ENVIRONMENT	
301/90	PLANNING AND ADMINISTRATION	$ 35,000
	Salaries Young Environmentalist Program (Offset 100% by sequestered funds in Department of Industry)	
664/90	EMERGENCY MEASURES ORGANIZATION	37,800
	Joint Emergency Planning Projects Update of Provincial Shelter Plan	
793/90	JEPP #24	41,200
	Emergency Response Vehicle for Kensington Fire Department (Offset 100% by federal revenue under terms of an Emergency Preparedness Project)	
	TOTAL	**$ 114,000**

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	DEPARTMENT OF TOURISM AND PARKS		
623/90	TOURISM AND PARKS		$ 20,800
	Parks Parks upgrading as follows:		
	Cabot Provincial Park	$ 7,500	
	Cedar Dunes Provincial Park	13,300	
	(Offset 100% by sequestered funds in the Department of Industry)		
	TOTAL		**$ 20,800**
	EMPLOYEE BENEFITS		
168/91	GOVERNMENT PENSION CONTRIBUTION		$ 444,500
	TOTAL		**$ 444,500**
	P.E.I. LENDING AUTHORITY		
482/91	Debt - Operating deficit		$ 282,911
	TOTAL		**$ 282,911**
	DEPARTMENT OF INDUSTRY		
106/91	SMALL BUSINESS DEVELOPMENT		$ 1,827,400
	Strategic Development		
	Industry Incentives - forecasted shortfall of funds as a result of grant commitment to Atlantic Turbines Inc. (CFB Summerside) (Offset by $1,279,100 of federal revenue under terms of Industrial Development ERDA)		
	TOTAL		**$ 1,827,400**

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	P.E.I. DEVELOPMENT AGENCY		
27/91	WASTE TREATMENT FACILITIES - MCCAIN'S PLANT		$ 6,012,000
148/91	Industry Incentives - To provide for the incentive under the Federal/Provincial Contribution Agreement (Offset by $4,198,400 revenues under terms of the Federal/Provincial Contribution Agreement)		
610/90	LAKESIDE DEVELOPMENT Professional and Contract Services Pre-Planning associated with golf course development		265,000
149/91	FINANCIAL ASSISTANCE - Provision for future losses		5,010,800
454/91	FINANCIAL ASSISTANCE - Provision for future losses		227,400
	TOTAL		**$11,515,200**
	GEORGETOWN SHIPYARDS		
456/91	DEBT - OPERATING DEFICIT		$ 500,900
	TOTAL		**$ 500,900**
	DEPARTMENT OF HEALTH AND SOCIAL SERVICES		
719/90	DEPARTMENTAL MANAGEMENT - MANAGEMENT SERVICES		$ 101,700
	Equipment	$ 7,000	
	Professional Services	94,700	
	(Offset 100% by federal revenues from Health and Welfare Canada through terms of a three year agreement regarding development and implementation of a Social Services Management Information System, and through Canada Assistance Plan)		
135/91	PHARMACY		760,000
	Materials, Supplies and Services	$500,000	
	Pharmacare	260,000	

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
135/91	HOME CARE AND SUPPORT		96,000
	Salaries - Region 2 - Summerside	$40,000	
	Salaries - Region 3 - Charlottetown	56,000	
	(Offset by $20,000 federal revenue through Canada Assistance Plan)		
404/90	SPECIAL SERVICES - DIVISION MANAGEMENT		145,800
	Child Sexual Abuse Needs Assessment (Offset 100% by federal revenue through the Victims of Violence Program)		
28/91	CHILD AND FAMILY SERVICES		3,764,800
135/91	Region 2 - Summerside	$ 554,500	
	Region 3 - Charlottetown	2,295,900	
	Region 4 - Montague	868,400	
	Region 5 - Souris	46,000	
	This amount consists of welfare assistance payments ($3,330,000) and day care subsidy ($434,800) (Offset approximately 50% by federal revenues under terms of the Canada Assistance Plan)		
552/90	AGED AND EXTENDED CARE - SALARIES		1,000,100
135/91	Wedgewood Manor - Summerside	$121,500	
	Summerset Manor - Summerside	90,000	
	Riverview Manor - Montague	59,500	
	Hillsborough Hospital/Riverside Home	387,100	
	Prince Edward Home	220,900	
	Special Care Unit	35,500	
	Beach Grove Home - Charlottetown	85,600	
	TOTAL		**$ 5,868,400**
	ADDICTION SERVICES		
145/91	QUEENS COUNTY - DETOX		$ 13,600
	Administration	$5,800	
	Materials and Supplies	7,800	
145/91	PRINCE COUNTY - SHORT TERM CARE		5,000
	Administration (Offset 50% by federal revenues under terms of the Canada Assistance Plan)		
	TOTAL		**$ 18,600**

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS		
	HOSPITAL AND HEALTH SERVICES COMMISSION		
89/91	HOSPITAL SERVICES - IN PROVINCE HOSPITALS		$ 126,400
	French Language Services Project		
	(Offset 100% by federal revenues through terms of the Canada/PEI General Agreement on the Promotion of Official Languages)		
	TOTAL		**$ 126,400**
	P.E.I. ENERGY CORPORATION		
553/90	JOB CREATION PROGRAM		$ 630,000
	Salaries	$497,500	
	Equipment	7,000	
	Materials and Supplies	51,700	
	Travel	73,800	
	(Offset 100% by sequestered funds in several other departments)		
455/91	DEBT - OPERATING DEFICITS		4,342,300
	TOTAL		**$ 4,972,300**
	DEPARTMENT OF JUSTICE		
525/90	CORRECTIONAL SERVICES - GENERAL		$ 34,000
	Salaries		
	(Offset 100% by federal revenue from Canadian Centre for Justice Statistics)		
682/90	IMPAIRED DRIVING PROJECT		43,300
	Administration	$14,400	
	Materials, Supplies & Services	2,000	
	Professional & Contract Services	5,500	
	Salaries	19,900	
	Travel & Training	1,500	
	(Offset 100% by federal revenues under the Community Action Program of the National Drug Strategy)		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
710/90	RESIDENTIAL RENTAL PROPERTY			128,300
	Administration		$ 2,000	
	Salaries		121,800	
	Travel		4,500	
	Responsibility transferred from the PEI Housing Corporation. (Offset 100% by sequestered funds in PEI Housing Corporation)			
	TOTAL			**$ 205,600**
	DEPARTMENT OF FISHERIES AND AQUACULTURE			
447/90	RESOURCE UTILIZATION			
	Special Lobster Promotion Program			$ 100,000
	Materials, Supplies & Services		$50,000	
	Professional & Contract Services		25,000	
	Grants		25,000	
	(Offset 100% by federal revenue under terms of Fisheries Cooperative Agreement)			
	TOTAL			**$ 100,000**
	DEPARTMENT OF TRANSPORTATION AND PUBLIC WORKS			
153/91	MECHANICAL BRANCH - GARAGE OPERATIONS			$ 155,400
	Charlottetown Garage			
	Write-off of obsolete parts inventory		$85,300	
	Settlement of equipment lease agreement on four motor graders		35,500	
	Fuel price increase		26,000	
	Summerside Garage Fuel price increase		8,600	
	BUILDINGS BRANCH			460,700
	Direct Buildings Maintenance - Other Buildings			
	Fuel Price Increases:		$370,000	
	Dr. Eric Found Health Centre	$20,000		
	Province House	8,000		
	Beach Grove Home	20,000		
	Prince County Jail	8,000		
	Correctional Centre	12,000		
	Prince Edward Home	160,000		
	MacMillan Building	102,000		
	Small Buildings	40,000		

ORDER-IN-COUNCIL	LIST OF SPECIAL WARRANTS			
	Accommodations		$78,000	
	Municipal portion of property tax for Research Station (1988 and 1989)	$57,000		
	Increase in lease payments for Holland College	21,000		
	Fuel Price Increases:		12,700	
	Royalty Mall	$ 4,400		
	East Kings Regional Services Centre	6,000		
	S'side Waterfront Development Corp.	2,300		
	TOTAL			**$ 616,100**
	P.E.I. CROWN BUILDING CORPORATION			
453/91	CHARLOTTETOWN VETERINARY CLINIC - DEBT Operating Deficit			$ 174,700
	TOTAL			**$ 174,700**
	GENERAL GOVERNMENT			
611/90	GRANTS			$ 310,100
	Advisory Council on the Status of Women (Offset 100% by federal revenues under terms of the General Agreement of Official Languages)		$10,100	
573/90	Renovations to UPEI Cafeteria (Offset 100% by sequestered funds in Council of Maritime Premiers)		300,000	
	TOTAL			**$ 310,100**
	DEBT CHARGES			
151/91	INTEREST			$ 1,363,900
439/91	INTEREST			3,700
	TOTAL			**$ 1,367,600**